U.S. TRADE RELATIONS WITH JAPAN

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TUESDAY, SEPTEMBER 14, 1982

UNITED STATES SENATE,
COMMITTEE ON FOREIGN RELATIONS,
Washington, D.C.

The committee met, pursuant to notice, at 10:04 a.m., in room 4221, Dirksen Senate Office Building, Hon. Charles H. Percy (chairman of the committee) presiding.

Present: Senators Percy, Helms, Hayakawa, Boschwitz, Glenn, Tsongas, and Dodd.

The CHAIRMAN. We welcome our distinguished guests this morning.

Today the Foreign Relations Committee will explore trade relations between the United States and Japan. Expanding every year, goods traded across the Pacific between the United States and Japan now exceed $60 billion in value.

This healthy and growing trade is good for both of our countries, but it has increasingly become one-sided. In recent years Japan has been more successful in selling its products in the U.S. market than Americans have been in marketing U.S. goods in Japan. In 1981 the deficit in merchandise trade soared to an all-time 1-year record of $16 billion. This year, trade projections show that this trend will continue and worsen. Our bilateral deficit may reach $20 billion this year.

All of this is quite a reversal from the 1950's and early 1960's, when we registered surpluses with Japan. Just looking to the future, from what I understand, the machine tool show in Chicago always in the past, in my experience, has been dominated by the American machine tool manufacturers, many of them in Illinois. But this year it is heavily dominated by the Japanese. So in another industry they have shown tremendous aggressiveness and ingenuity.

What has caused our trade to get so out of balance, particularly in the last 5 years with Japan? There are a number of reasons, of course, which these hearings will address.

But it is my observation that Japan at times seems to be both our best and our worst customer. In Illinois, the largest exporter of agricultural goods in the Nation, we are keenly aware that Japan is the single most important market for U.S. farm exports anywhere in the world. But Illinois is also a producer of manufactured and industrial goods and has a burgeoning high-technology industry.

Many of us in the Congress have long received complaints from businesses who feel that they are being denied access to the Japanese market. Their calls for action have become more frequent as the deficit rises and the recession continues.

No one argues that our trade should be in perfect balance dollar for dollar. But our businesses and our workers do expect to have a fair crack at foreign markets. The message they have delivered in Congress is that Japan's markets are not fairly open to U.S. goods and services.

This trade imbalance has caused political friction between our two countries. The size of the deficit, protectionist policies in Japan, the tendency of Japanese imports to be concentrated in specific industries, such as steel, automobiles, and sophisticated electronic equipment, all have exacerbated trade tensions.

We simply cannot ignore a problem that could undermine relations with our most important ally in Asia. In a national poll conducted by the Los Angeles Times at the end of August, Japanese business competition was cited as one of the most important sources of economic problems in the United States, second only to foreign oil prices.

When one nation is singled out in this manner, it is clear that public sentiments are running high. In a democracy, such public attitudes often find themselves reflected in the political process. The U.S. recession, with its accompanying high unemployment in the industries where Japanese imports are highly competitive, have led many Americans to blame Japan for the loss of American jobs. In the Congress, legislative proposals to protect the U.S. market from Japanese imports abound. In Japan resentment is expressed that Japan unjustly is being made the scapegoat for U.S. economic difficulties.

I believe our relationship with Japan, our most important ally in the Pacific, is strong and enduring. We have survived periods of tension in the past, and I am confident that, with the political will in both nations to carry out appropriate policies, we can overcome our current difficulties.

Our purpose today is to determine what policies we should pursue in the United States and what remedies we should seek to further open the Japanese market to U.S. exports. Our witnesses this morning include three distinguished gentlemen, all of whom have had personal and professional experience in working with Japan.

First we will hear from Bob Galvin, chairman and chief executive officer of Motorola. Second, we will hear from James Beré, chairman and chief executive officer of Borg-Warner Corp. Mr. Beré is also the chairman of the Advisory Council on Japan-United States Economic Relations. Then we look forward to the testimony of Robert B. Delano, president of the American Farm Bureau Federation. After we have heard from each witness, we will begin questioning the witnesses as a panel.

This afternoon the committee will reconvene at 2 p.m. to continue the hearing. We will receive testimony from two administration witnesses, U.S. Trade Representative David Macdonald and Seeley Lodwick, Under Secretary of Agriculture for International Affairs and Commodity Programs.

Mr. Galvin, we are pleased to have you begin your testimony.

But first, Senator Glenn, let me ask you if you have an opening statement, since Senator Pell is not here this morning.

Senator **Glenn**. Thank you. I do not have a prepared statement. But I would like to make a comment this morning before the testimony begins.

I think this is a very basic thing. Japan, I believe, has learned that the "goose that laid the golden egg" is here in America, and they are following our pattern in exports to a large extent, but with a society of their own with largely closed markets, particularly in the past, although they are now beginning to open up a little.

They have moved into the high-technology area that we will talk about this morning in a big way. If we have three verities that are basic of our system in this country that will serve as well to remember in the future, it seems to me they would fall into three areas. One is education. We started out our country with an emphasis on education, higher education. Out of that came an educated citizenry, an educated work force, No. 1.

No. 2, we have plowed more of our gross national product back into research throughout our history than any other nation in existence at any time. And it seems to me out of that came the new facts that we applied to metals and alloys and materials and medicines and all these different areas. We got the information first.

And then we had the third element, free enterprise capital waiting to jump on this research, and make a buck with it here and around the world. And that has been a very simple little formula.

But now that we have some of the nations like Japan recovered from World War II and with enough disposable national income, they are putting their emphasis into research, they are putting their emphasis into education, and they are beginning to outcompete us in certain fields.

Now, what does that mean to us? Well, to me it means not that we lay this down and set up all sorts of restrictions. There may be some temporary restrictions on trade and so on that will be necessary just from a defense standpoint here—steel, autos, some things like that, temporarily. But for the long term, it seems to me we get in and outcompete. And that is what gripes me now is that we are not doing that.

Instead of getting in and saying that Americans can out-research, out-invent, out-build, out-produce anybody in the world, and doing it as we have done in the past, we are beginning to think along the lines of more and more protection, more and more protection, into the future as the way out of this thing.

The long-term way out of it is to get in there and outcompete, at the same time insisting that these markets be fair and be open and that the same advantages be given to our products abroad as are given the Japanese and other nations' products here.

I do not think it is just a Japanese problem. That is just the one that has come to the forefront right now. We have the same problem with European nations, and that will be coming more to the fore in the future. But the long-term thing is to get in and our research we have in the past instead of cutting back on our national lab system, which the administration is doing. They have cut our national lab system, which has been a fountain of new information for our people in this country, doing things that private industry is not willing to do with their interest in a 3-to-5-year payoff on the bottom line on the balance sheet. And instead of getting in and outcompeting, we are cutting back on our national lab system, 20 percent last year, 17 percent this year. And I think that is like eating your seed corn for the future.

That is a longer opening remark than I planned, Mr. Chairman, but I think this is just very basic to our whole system for the long term. Thank you.

The CHAIRMAN. Senator Tsongas, do you have any comments you would like to make? I know you made some very strong comments, if I recall, when we met with the so-called "wise men group."

Senator TSONGAS. Mr. Chairman, I would just say that I grew up in a city in Massachusetts that was a textile capital, Lowell, Mass. And throughout my adolescence and indeed into the last couple of years, that city was in decline. And we have been saved for a number of reasons, but one is that Wang Laboratories is now located there, and we have a high-tech base.

It seems to me that the country is going in exactly the same direction now that it did back in the textile and shoes days, and what is happening is that everybody is blaming each other.

To give you an example, Chrysler, which we worked on a few years ago. They are now on the verge of a strike, as if they did not have enough trouble, that we are now looking at the possibility of a strike to put the last nail in the coffin.

You have the situation, as Senator Glenn pointed out, where the administration believes somehow that if you cut back on education and basic research, that the system will straighten itself out. And all these very intelligent three-piece-suit CEO's around the country are mute as if somehow criticizing that is inappropriate.

We have a situation where in management, there is a team at Harvard Business School, Hays and Abernathy, doing work on short-term management mentality in this country. Just what is management doing? They are blaming labor, they are blaming Government regulation.

I remember during the Chrysler case, when Mr. Iacocca came before the Banking Committee and blamed government regulation involving efficiency standards and that kind of thing for their troubles, without ever mentioning the fact that the Japanese face exactly the same standards to sell their products in this country.

I think the long-term trend is very serious. Comparing various industries of the United States and Japan in investment in education, basic research, you name it, they are all going in the wrong direction.

The only hope on this rather dismal scene of the United States reduced to bickering among itself, other people who are here today and some others in the high-technology field who recognize that it is time to realize that the enemy is us.

The answer is not protectionism. And we should get on with it. For a nation that prides itself on the capacity to compete, it is about time we went on and did it.

I would hope that the witnesses we have here today are just the beginning of a long line of people who would not only be convincing to themselves, because they are going to be preaching to the choir over here, but also I hope they will spread the gospel within corporate America and, if possible, penetrate this administration, whose policies on education and research, as Senator Glenn pointed out, I think in the long term will be disastrous. Thank you.

The CHAIRMAN. Thank you very much.

I think it has been suggested to each witness that he might wish to summarize. Some of the statements are quite detailed. Perhaps you can take 10 minutes or so. The full prepared testimony will be placed in the record, of course.

STATEMENT OF ROBERT W. GALVIN, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, MOTOROLA, INC., SCHAUMBURG, ILL.

Mr. GALVIN. Thank you, Mr. Chairman. I am Bob Galvin, chief executive officer of Motorola, an electronics company that operates throughout the world. I have filed two documents with the committee. One is the text of a speech that I gave in June; a second is a prepared document that is filed specifically for this testimony. My comments will be very brief and of a summary form that deal with the essence of the contents of those two other documents.

Foreign policy is very important and impacts on business. The strength of business is an important platform from which foreign policy can be projected by our country. I think it is safe to say that an important purpose of a sound foreign policy is the encouragement of a strong business and a strong economy and a growing one.

The mechanism for our economy, as this committee well knows, is the American business system that depends on the private ownership of the means of production and the individual execution by the firm of its initiation of its conduct of and the earning of its position in a market-determined economy, things that we do on our own.

The industry about which I speak is a high-technology industry, electronics, that produces products like semiconductors, voice and data communications, computers, test and measurement equipment, electronic controls of all kinds, et cetera.

The profile of this industry is an industry of exceptional individual competence wherein we are making extensive independent risk-oriented decisions and investments and commitments, where we activate our affairs in a separate way, company by company.

We have an extraordinary record of investment in advanced technology, keeping up with the state of the art, the employment of the most advanced manufacturing processes, the most enlightened participative employee involvement in the achievement of quality and productivity. We apply our technology at the leading edge of applications and do so at the highest levels of quality and productivity.

We apologize to no one for our short-term and our long-term execution of our business in an excellent way. But we have a problem. And the problem, I think, is a little different than is signified by a couple of the introductory comments from certain of the Senators here.

The problem with the high-technology industries is Japan. And therefore, it is a problem that focuses on foreign business, foreign affairs and policies. Any individual company in our business is capable of standing toe to toe with any individual Japanese company.

But unless conditions change, we are not going to be able to stand up to Japan in its totality, for two basic very significant reasons: One, Japan is the country among developed nations that has the most extensive and persistent barriers to trade and investment. I will amplify on that in just a moment.

And second, Japan directs the collective action of its total resources and, in particular, the implementation through selected companies of a process of doing business that is out of phase with the American business system.

Let me amplify. For 25 years, at least, the Japanese have practiced barriers of trade of an inordinate proportion. As a consequence of these, the American manufacturer has held back from him billions and billions of business opportunity which we have proven competent at being able to earn everywhere else in the world but have not been given the opportunities to legitimately earn in the Japanese economy.

This has a tremendous effect on the viability of our institutions which could have done more business, earned more to our balance sheet, provided ourselves with even greater resources to practice our business legitimately in the future.

The Japanese have done this to the point that I think has been a nourishing within the sanctuary of their society to give themselves a non-free-trade advantage in the world. Second, as I indicated, the Japanese have caused the collective action of their industry, under government guidance and controlled to a substantial degree in a manner that is inconsistent with our society, that provides the means whereby they can operate to overwhelm the individual firm in the United States.

They are outspoken in what is apparently an intent to dominate in very many markets. And this combination of intent and means of overwhelming would be illegal by the standards of conduct of business here in this country—the rules that you cause us to operate by, and should continue to cause us to operate by.

But to us, it is wrong that their standard of conduct is rewarded by an ungoverned access to this marketplace. Their conduct is characterized by targeting to dominate in specific industries because of national and coordinated plans; the causing of cartels; the setting aside of their antimonopoly laws; the using of combined activities that are an anathema to our kind of a society in cooperative ventures; subsidization of a significant nature; the employment of standards that are near impossible for many of American industries to deal with because of the cost and burden and time to get over them; predatory pricing; and low-risk concessionary type loans and financing that make it reasonable in the high capital-intensive industries which we are in to, in effect, move forward with a much, much greater ease to serve the world markets.

Now, in the documents I have submitted, I have recommended two objectives of what our trade relations with Japan should be. One is that our country and the GATT [General Agreement on Tariffs and Trade] must find ways of seeking modifications of the manners in which Japan practices world trade, which, as I have indicated, is anathema to our methodology. And second, we cannot until such modifications are achieved, operate on an unlimited access and ungoverned access to this marketplace where the rules of the road are entirely different.

In the document again I spell out with much greater detail three classes of areas where actions are required: One, we recommend that the U.S. Government will step forward and assert a very positive interest in these high-technology industries and express a willingness to act when necessary and when justified by policy and by law. That second, we act now with the resources that we have, the laws that are presently invoked, and that we add to them the strengthening of laws. And I specify a number of examples in my testimony.

And, finally, that there be the continuing, but much more effective and unequivocating, consultative process with the Japanese and with the GATT to move toward these modifications. And it may even be desirable that we find a way of invoking the claim of damage of what has been done to numerous American industries as a function of the unfair trade practices that have existed up to now.

Now, this fall is a symbolism of, obviously, not foreign policy alone, but diplomacy. The act of a diplomat is normally accomplished in very gracious and graceful words. I respectfully suggest, Senators, that our problem is much more than you have identified in your opening comments, and that there has to be some rather frank facing of the issues that I have outlined in my documents, and that one cannot deal with this issue in simple and equivocal language. I think we have got to call a spade a spade. We have a very serious bilateral problem with the Japanese, and we have to talk about it in very strong language, as I have written.

Now, we are in a situation where, by claiming the need to do things that I do, that it is entirely reasonable that people will say, well, this sounds like you would cause the beginning of the initiation of a trade war with Japan. I respectfully suggest that the concerns which we in our industry have are reasonable focus on the fact that we are recognizing a problem that most people are unwilling to recognize, that there needs to be corrective action taken, and that we have a right to ask that we change the policy of America being a patsy when it comes to the kinds of trade that is achieved as a function of the process of the Japanese mechanism of their economy.

Now, this committee and the Congress certainly could not countenance a country that does not have a viable high-technology component of industries. High-technology industries are now intensely capital-oriented and require intense research and development investment. We must have an economics of size. We must be achieving low cost as a function of following the learning curve. We must have a budget that allows for extensive investment in research and development. And we are doing everything in that regard that we can now.

But the investors of finance and those who invest their job careers in our kinds of business must have a sense of confidence that the rules of the road on which we are going to be seeking to do our business throughout the world and in this marketplace—remember, the United States is international trade to the world—that if we do not have the confidence that the rules of the road are going to be more equitable than they have been up to now, you will find, and we are seeing evidence of the fact, that little step by little step people are beginning to lose their confidence in making that financial investment and that job commitment if there are not going to be changes.

So I am very pleased that this committee is willing to listen to some points of view that may be there have to be some changes. And I hope this would signal a reexamination on the part of Congress of some very important practical problems that we have enunciated in our documents. Thank you for the privilege of addressing the committee.

[Mr. Galvin's prepared statement follows:]

PREPARED STATEMENT OF ROBERT W. GALVIN

Mr. Chairman, I want to thank you for inviting me to appear before your Committee today to discuss the issue of high technology trade in the context of United States-Japanese trade relations.

I believe this issue is of paramount importance not only to our trade relations with Japan but also to our political and security relationships.

Why is high technology trade so important?

First, it is a large and growing component of total U.S. trade. U.S. imports and exports of high technology products approached $100 billion in 1980, having nearly doubled since 1977 and increased more than five-fold over the last decade. These products now represent over one-third of U.S. manufactures trade and over two-fifths of U.S. manufactures exports.

Second, it is a major positive contributor to the U.S. trade balance. As the members of this committee recognize, the large and growing U.S. trade deficit has caused great distress and lost jobs, sales, and tax revenues in our economy. High technology product exports exceeded imports by $30 billion in 1980 and could have been much larger had it not been for the problems I will describe later in my testimony. Without this positive contribution, it is difficult to see how the United States could have maintained its basic free trade policies during the current period of economic uncertainty.

Third, it is a significant component of U.S. bilateral trade with Japan. These products represent one-fifth of our bilateral trade. Also, because Japan is a large and rapidly growing part of the total world market for high technology products, access to the Japanese market is very important to U.S. companies.

Fourth, high technology trade performance is generally viewed as a bellwether of international competitiveness. A country that performs well can look forward to further growth and prosperity. One that does poorly will find itself falling behind economically.

Finally, the advancement of technology is a critical factor in U.S. economic and political leadership in the world. If the United States is perceived to be losing its technological leadership, there will be an adverse impact on U.S. influence around the world. Further, our technological edge creates a significant deterrent to military aggression in the world—that deterrent could lose its credibility.

In a speech I gave last June, I detailed the way the Japanese Government has promoted the development of its electronics industry through protectionist and other market distorting policies. It appears that the Japanese Government is committed to continuing those policies and using similar approaches in other high technology sectors such as biotechnology, aerospace, robotics, and nuclear power.

In my judgment, the consequences of such past and current Japanese policies are extremely serious for the United States. Not only has Japan become a serious competitive threat to U.S. high technology industries, but also it has established a model that other nations are seeking to follow. That model is not the free enterprise system that we believe in.

I will not repeat here the elaboration of Japanese policies that cause serious distortions in international competition. For those who wish to delve deeper into this matter, I am submitting with this testimony my earlier speech. Another source, which exhaustively documents Japanese practices in the machine tool industry, is the petition filed by Houdaille (a U.S. machine tool manufacturer) with the office of the USTR.

Today I would like to examine the consequences of Japanese policies for U.S. high technology industries and suggest the kind of public policy response that is needed to avoid a serious disruption of United States-Japanese trading relations.

Let me begin with some examples from the electronics business.

Motorola is a leading manufacturer of radio pagers. The only customer for pagers in Japan is NTT, the government-owned telecommunications monopoly. Until very recently we were excluded from the Japanese market because NTT would buy only from domestic Japanese firms. As you know, over the last several years we have made great efforts to penetrate the Japanese pager market. With substantial encouragement from the U.S. Government, Motorola recently succeeded in selling pagers to NTT. This was a very costly and difficult process and has not resulted in the degree of participation in that market that we had hoped for. Still, we were pleased to be able to participate in that market and are continuing aggressive efforts to make additional sales to NTT.

In contrast, the U.S. pager market consists of a significant number of customers and has been and is open to foreign competitors. Shortly after we received the NTT pager order late in 1981, a new Japanese competitor entered the U.S. pager market, undercutting the prevailing U.S. prices of U.S. companies and another Japanese company by over 50 percent and taking nearly 10 percent of the annual market in a few months. Those prices were only about one-third of the Japanese domestic price. The revenues Motorola has lost as a result of meeting this new Japanese competitor will probably exceed the total revenues received from our NTT business. Clearly this was an extremely aggressive attack on the U.S. market and demonstrates the contrast in access of foreign competitors to the respective markets.

In the pager business the Japanese Government has denied access by foreign competitors to the domestic market, enabling domestic producers to develop into strong competitors. Without that historical protection it is difficult to imagine that Japanese firms would be as successful in their own market or in exporting to the U.S. market. As a consequence of this policy U.S. firms have lost the opportunity for substantial additional business in the Japanese market and been victimized in the U.S. market.

Another area where Japanese policies have had a serious adverse effect on U.S. competitors is semiconductors. The policies have been amply documented in a February 1982, Joint Economic Committee Study titled "International Competition in Advanced Industrial Sectors: Trade and Development of the Semiconductor Industry". Let me quote two of the study's conclusions:

(1) "The structure of the Japanese domestic market provides domestic electronics producers substantial advantage in international competition."

(2) "Formal and informal control over the degree and character of foreign access to the domestic Japanese market prevented U.S. firms from consolidating their innovations and victories in the international marketplace and translating them into entrenched positions in the Japanese market."

In other words, by limiting U.S. access to the Japanese market, Japan created a domestic market base that gives it a substantial advantage in world markets.

But those are only words—what is their real meaning to the marketplace?

Speculation about what might have been is always risky, but recognizing the risks, let me try to measure the residual effects on U.S. semiconductor companies of earlier Japanese protectionist policies.

In the late 1960's and early 1970's when U.S. companies had a clear technological lead in semiconductors, U.S. firms were not permitted to invest in Japan and imports were also controlled. In Europe, U.S. firms were permitted to invest and import barriers, while severe, were less onerous. As a result, U.S. firms were able to establish a strong market position in Europe which continues to this day. In Japan the U.S. market share was severely limited, enabling Japanese companies to establish domestic production capabilities and marketing relationships which make it very difficult for U.S. firms to expand market shares even after the trade barriers have been lowered.

If U.S. companies had been permitted into Japan as they were in Europe, it is reasonably to assume they would have enjoyed comparable success. U.S. firms now supply about 60 percent of European semiconductor consumption but only 10 percent of Japanese consumption.

If U.S. firms had supplied 60 percent of the Japanese market over the last decade, they would have gained more than $10 billion in additional revenues. In addition, Japanese companies would have been less successful exporting to world markets, giving U.S. firms several billion additional dollars in business. And Japanese companies would have been unable to launch the kind of predatory pricing offensive they have in the United States and other world dynamic money markets—which has cost U.S. producers substantial additional revenues.

In sum, it is reasonable to conclude that U.S. semiconductor companies have lost at least $15 billion in revenues as a direct result of Japanese protectionism in the late 1960's and early 1970's. And those losses are continuing to accrue. amounting to roughly $3 billion in 1981 alone.

One does not have to be a businessman to understand what additional revenues of that magnitude would have meant to U.S. companies and to the creation of new jobs and what they did mean for Japanese companies. Japanese protectionism in semiconductors has fundamentally altered the conditions of competition on the world semiconductor market for the foreseeable future—to the disadvantage of American companies—and the worst effects may be yet to come.

What needs to be done to prevent further distortion of international competition by Japan in high technology products?

First, the Government must publicly assert U.S. national interests in its high technology industries and its willingness to act to protect those interests. We must put other nations on notice that the United States will no longer accept erosion of the competitiveness of U.S. high technology industries due to their market distorting industrial policies.

Second, after such a statement the Administration should immediately begin to back its words with actions permitted under existing authorities. The Congress should act expeditiously to give the Executive Branch the mandate, tools, and resources needed to complete the job successfully.

Third, the U.S. Government should aggressively use bilateral and multilateral consultations, negotiations, and dispute settlement mechanisms to seek modifications in Japanese policies that distort international competition and compensation for the damages already done. If they are unwilling to resolve these issues satisfactorily, we must use the authorities available to restrict access to our market.

Let's examine each of these points in greater detail.

The U.S. Government's posture with respect to high technology industries is unclear and inconsistent, in sharp contrast to the situation in many of our major trading partner countries, especially Japan. The United States has no explicit policy objectives for such industries, while other nations define specific objectives as a matter of national policy. In the defense area, the Government has limited interests but its activities currently have little commercial applicability, while abroad national objectives tend to be primarily commercial.

The absence of a stated U.S. policy can only be interpreted outside the United States as a lack of interest and willingness to act to preserve its technological leadership. Since the United States is the largest single market for high technology products in the world, and these industries frequently depend on large economies of scale, this is an open invitation for others to build their domestic capabilities on a larger than national scale. Certainly Japanese industrial policy has been predicated on this sort of assessment.

It is critical, therefore, that the U.S. Government define its policy on high technology. We think U.S. policy should encourage investment, research, and job creation. We do not think it is necessary to emulate the kinds of distortive interventions other governments engage in. Something along the following lines might do the job:

"The United States believes that all countries benefit from an open competitive environment that permits market forces to determine success or failure of business entities. Those countries which employ industrial policy to subvert such an environment, work against their own long-run economic interests as well as those of their trading partners. In accord with that philosophy, the United States declares that:

"(a) It will not accept a situation where foreign national industrial policies based on non-market mechanisms and unreasonable trade practices enable any country to disrupt U.S. markets, prevent reasonable access to their home markets, or give unjustified advantage to their firms in pursuing third world markets; and that

"(b) It will act expeditiously and affirmatively to assure that worldwide competitive trade conditions are fair so that U.S. high technology firms will not be artificially disadvantaged versus other countries' suppliers.

"It is the hope of the United States that its trading partners modify those of their actions that are inconsistent with the kind of market rules for high technology competition that we abide by. This would result in equalization of competitive trade practices worldwide. Because the effect of past actions of certain trading partners will continue for some time after all parties begin observing the rules, countries must take very special overt actions to overcome these lingering effects. The United States wishes to make it abundantly clear that if other countries do not abide by the rules, it will be forced to take certain unilateral actions in order to prevent its high technology industries from being destroyed or impaired by the practices which result from government support and intervention in the normal competition that should exist between business entities."

It is encouraging that both the Congress and the Administration appear to recognize this problem. Trade legislation introduced by Senator Danforth (S. 2094) this year contains provisions on high technology trade that would be helpful. There appears to be a broad base of support for such legislation in the Congress and the private sector. Passage before the end of this session without significant substantive amendments would be a good beginning.

Current efforts within the Administration in the Cabinet Council on Commerce and Trade to examine the problems of high technology industries are also a positive sign. Hopefully, this study will evolve into a policy statement that recognizes the seriousness of these problems and asserts the Administration's intent to deal with them effectively, expeditiously, and without equivocation.

But a statement of policy is not enough. Our trading partners have seen too many statements of U.S. policy over the years that have not been translated into actions. They are not impressed by words.

What actions could be taken by the Administration in the near future to back up an affirmative U.S. policy toward high technology industries? There are a number of areas that could be considered:

(1) Respond positively to the petition filed by Houdaille which documents the distorting industrial policy of Japan on numerically controlled machine tools, particularly cartel behavior in the Japanese industry. *Failure to give positive response to this petition will send absolutely the wrong signal to Japan and the rest of the world.*

(2) Strongly support passage of the reciprocal trade legislation now pending before the Congress.

(3) Establish a U.S. monitoring capability on Japanese and other foreign government industrial policies and disseminate this information to Congress and the private sector. I understand the Commerce Department is planning to do this and hope the effort will be assigned a high priority.

(4) Establish U.S. monitoring of Japanese companies' behavior in emerging high technology products to assure that their activities are consistent with existing U.S. trade and antitrust laws; and establish a stated presumpion that the Government will self-initiate investigations when violations are detected.

(5) The U.S. Government should examine the anticompetitive impact of cartel behavior of Japanese companies in acquiring random access memory (RAM) technology on the U.S. semiconductor industry, which led to predatory pricing of RAM's on world markets.

There are other areas as well which the Administration and the Congress are in a better position to identify and which I mentioned in my earlier speech. Suffice it to say there are numerous opportunities if the Government chooses to act.

In addition to Executive actions, Congressional action is needed. The existing tools and resources are simply not adequate. A few examples:

(1) Inadequate U.S. trade laws which define the grounds for action much too narrowly, put too much of the cost and burden of proof on U.S. firms, take too long to implement, provide no compensation due to damages caused by trade law violations, and provide an inadequate response to certain kinds of unfair foreign practices (e.g., cartels). These shortcomings severely limit the ability of the U.S. Government to take timely and meaningful actions that protect U.S. industries from distortions in international competition. In this vein, I think our trade laws should leave open the possibility of bilateral/sectoral reciprocity when other approaches do not produce meaningful results. While using such an approach as a general rule would endanger the world trading system, selective application might prevent that from happening.

(2) Inadequate domestic authority to mobilize non-trade government actions to counter foreign threats to U.S. high technology industries. Tax, regulatory, antitrust, and research policies cannot now be employed selectively to deal with particular problems.

(3) Inadequate funding of the Export-Import Bank is causing a serious erosion of world market share and the U.S. industrial base in several high technology sectors due to subsidized foreign financing terms which U.S. firms are unable to meet.

(4) Significant burdens on exporters caused by domestic regulation need to be reduced. The problems are well known. The solutions are pending before the Congress in a number of instances and deserve early action (e.g., export trading company bill, Foreign Corrupt Practices Act reform).

The first two deserve high priority attention in the next Congress. The latter two areas could be acted upon by this Congress.

On the international front, I believe the U.S. Government should make more aggressive use of bilateral and multilateral mechanisms to seek modifications of, and compensation for, Japanese policies that have damaged U.S. high technology industries. We have relied too heavily on bilateral consultations in the past and need to make greater use of more formal GATT procedures in the future. Semiconductors would be one high tech sector where a GATT case against Japan would be substantial and credible.

A number of other ideas are worth considering:

(1) Establish targets for U.S. participation in the Japanese market that would be actively pursued by both governments—an affirmative action program to overcome the tremendous inertia against imports in the Japanese system.

(2) Establish joint United States-Japanese monitoring of the respective markets for high technology products to detect emerging problems.

(3) Use the GATT Ministerial meeting in November to launch an examination of the adequacy of existing GATT rules in preventing distortions of international trade in high technology products.

(4) Begin an OECD dialogue on current industrial policies on high technology industries and their effects on trade and discuss possible changes in those policies.

Some in government and the private sector will flinch at taking such an assertive active posture regarding high technology issues. Yet, the implications of failing to act are too serious to ignore for both the United States and Japan.

I would urge that our trading partners will appreciate, even if they don't like, this approach because it will give them a clear picture of what they can expect from the United States. In the absence of such clarification, they will surely go overboard and perhaps cause a serious, emotional backlash in this country that will be felt for many years to come.

The best way to avoid future confrontations is for the United States to let Japan and others know where it stands and act accordingly. This would also improve prospects for getting other governments out of the business of managing their industrial activities in ways that distort conditions of international market competition.

JAPAN WILL DOMINATE THE U.S. MARKET UNLESS . . .

By Robert W. Galvin
Chairman of the Board and
Chief Executive Officer
Motorola, Inc.

The following address was given by Mr. Galvin before the 7th Annual Hyannis Conference of the Communications Division, Electronic Industries Association, June 2, 1982, Hyannis, MA.

This conference focuses on the prospects for the communications business of the electronics industry. Those prospects are a function of everything from technology to public policy, and are interrelated with the destiny of the component business that serves it and the computer business it serves. My focus is on our country's trade and investment policy on Japan.

A brief Motorola story will set the stage.

Most of you may be aware that our company has gone public with our commitment to win as we meet Japan's challenge. Ads under that headline, "Meeting Japan's Challenge," address our respect for Japanese competitors. They aim also at countering the myth of some inherent Japanese corporate superiority. We publish experiences, practices and successes as models for and about companies in our U.S. industry. We demonstrate that our company and local industry invest extensively here and in Japan, engineer for the long term, and practice the basics in thorough and progressive ways. We sign off by noting certain leadership, based on quality and productivity, through employee participation in management.

". . . our company has gone public with our commitment to win as we meet Japan's challenge."

Hopefully, thoughtful observers of our industry, most particularly those who influence public policy, believe and appreciate that our companies, individually, are capable, independent risk-takers reaching out to serve our markets' highest expectations and deserving of respect and support.

"... the challenge ... (may be) beyond the individual competence of most companies."

Yet, as able as are the hundreds of excellent individual electronic companies in our industry, many represented in this room, the challenge that we face from Japan has a special two-part dimension beyond the individual competence of most companies.

It is embodied in:

- First, a demonstrated willingness and proven capability by Japan to dominate individual industries worldwide.
- Second, a concerted national program to protect and promote certain industries to the point where such domination has occurred or is potentially and probably the predictable result.

"Japan has action programs ordained in law to intensively rationalize and restructure industries ..."

Japan has action programs ordained in law to intensively rationalize and restructure industries, including the defining of facilities to be installed, the sizing of their production scale, the specialization to be assigned among companies; and the legislating of concerted collaboration between corporations under corporate exemptions from their anti-monopoly law.

How many Americans understand or even know of the series of Public Laws enacted in Japan starting in 1956 and continuing through Public Law 17 in 1971 and Public Law 84 in 1978 — those particularly aimed at our industries — that ordain the actions I just lightly touched on? How many understand these and other laws sanction the establishment of cartels, allow the specifying of favored or limiting standards, provide for concessionary loans under conditions allowing for interest and/or even loan forgiveness, collaboration among companies to fix prices on exports, exhorting companies that don't fit the restructuring plan not to play in the game or upset the scheme?

Can you imagine the nightmare of antitrust difficulties we would be in if our American industry members were to conspire in such manners, including—just to add one more anticompetitive practice—manufacturers in cartels notifying members of their desire to offer a new product and the others being allowed to comment and influence the implementation.

These policies and concerted actions are supported by the interlocking financial structure of government, banks and manufacturers whose socialized method of financing provides funds on such a low-risk basis that one can hardly sense the actions of a free market.

"These policies and concerted actions are supported by the interlocking financial structure of government, banks and manufacturers . . ."

The additional structural policies of Japan then essentially oblige that when capacity is staffed it shall be operated, and the output will be disposed of, almost irrespective of the immediate cost burden to their society. The rest of the Japanese system is accustomed to support this objective in the interest of exports, and sees each targeting industry through to a successful conclusion.

Remember the early examples of MITI granting import licenses for low-cost sugar to exporters who could use the gain from the resale of sugar at artificially high prices in Japan to offset costs, even losses in their non-related targeted exports, or the allocation of income from bicycle and horse racing in the amount of a half million dollars annually to just one exporting industry? Theirs is a system, to say the least, that is at variance with our market system.

"Theirs is a system . . . that is at variance with our market system."

We'll return to those issues momentarily.

Now let's also review other principal policies and practices that the Japanese have employed over the last quarter of a century vis-à-vis many businesses, including electronics, that reveal Japan as a protected society at home.

1. The Japanese have prevented or discouraged foreign investment most of this time. I was particularly intrigued with the so-called "Ten Commandments" on foreign investment they pronounced in the '67-73 period. In addition to specifying then that only certain industries were allowed foreign investment, and only up to 50% of what effectively would be a start-up, two other of the commandments obliged that foreign investors, as a whole, should avoid concentrating in any particular industry and foreign investors should cooperate with Japanese competitors to avoid excessive competition. Interesting! It was around this period that the American electronics investors were setting up—successfully incidentally—all over the rest of the world. We might have done just as well in Japan if allowed to and if we were fully welcomed.
2. They have explicitly and implicitly practiced "Buy Japanese." They have created a national psychology that views imports as a necessary evil to fuel the industrial sector.
3. They used standards and specifications to discourage foreign suppliers.
4. They used subsidies to underwrite certain industrial development efforts and to signal to the Japanese banks what national priorities are to be supported.
5. They used high tariffs and other forms of customs such as uplifts to discourage imports.
6. They employed other non-tariff barriers including quotas whenever the situation warranted.

In summary, Japan has nursed itself to competence in a privileged sanctuary for twenty-five years. Those distortions protected their *home* market. How have they orchestrated *exports*?

". . . Japan has nursed itself to competence in a privileged sanctuary for twenty-five years."

"Japan's success as a world trader is made possible by its protected home base."

Japan's success as a world trader is made possible by its protected home base. Japanese firms acquire their basic capabilities in a "hothouse" environment, where a prescribed form of competition produces a few strong contenders who then move simultaneously and aggressively into world markets. The protected base provides not only large market volumes on which to realize economies of scale, but also buffers the home market against aggressive pricing.

In the area of high technology we see a particularly threatening new phenomenon where subsidized collaboration enables selected major Japanese firms to acquire state-of-the-art technology while each U.S. firm must primarily solve its own problems. The ability of a special few Japanese firms to simultaneously exploit state-of-the-art technologies acquired through means presumed to be anti-competitive in our country constitutes a grave and unnatural threat to U.S. technology industries.

These practices, plus a tax system inherently providing pricing advantage, and cartelization and other concerted actions that cause emplacement of capacity that combines to serve the lion's share of targeted markets here and elsewhere, demonstrate they are prepared to do what is necessary to pursue their national objectives, whether or not the means are consistent with free market principles or the international trading rules. They have demonstrated that they press those objectives to the point that groups of their companies do, or potentially could, assume dominant market shares here. This is driving American investors away from opportunities they might otherwise chance.

"... the implications of this concerted effort ... cannot be ignored ..."

For the United States, the implications of this concerted effort and historical reality cannot be ignored in terms of its current and carry-over effect on the prospects of the American electronics industry and other targeted high-technology sectors.

For sure, the Japanese now possess excellent operating capabilities; the marketplace recognizes Japanese technology, manufacturing and quality competences; their people are talented and work well together; the structure of their society and their culture enhances all of the above. But, it cannot be ignored that these capabilities were only nursed by distortions of world trade and investment rules for a quarter of a century. Had the Japanese permitted market-determined investment and trade, they would not have been left alone to have learned all these competences so soon or so well. Now, with the existence of the acknowledged capabilities, there is some relaxation by them of other now less-required barriers to imports. And, for their giving in on the latter, there is a suggestion that all is to be forgiven.

One can sense at this point in the speech each of us moving to one or the other side of the issue. Free traders there. Protectionists there. And fair traders, who and where are they? Well, most of us are not all that far apart. Most of us want free trade, and have wanted it for twenty-five years. Free trade will be fair trade if an undistorted *market* makes the decisions in both countries over a period of time. Americans haven't wanted protectionism on either side in the electronics industry for these twenty-five years. Some of us thought that the U.S. dispensation to Japan in the early years and the fact that their early rationalization laws were claimed to be short term would mean that all that would shortly disappear. But it didn't. Even today, while the targeting strategy continues unabated, most of the other distortions and/or their effects prevail.

"Free trade will be fair trade if an undistorted market makes the decisions in both countries over a period of time."

My sense of the situation is that a substantial majority of American and European business leaders believe that Japan has protected and publicly supported its industries too much and too long, and has combined to excessively impose production and unemployment on the rest of us too much and too long, and that they intend to extend these consequences too much and too long, and this can no longer be tolerated. If defense against such excesses is to be labeled protectionism, so be it.

I believe that a substantial majority of business leaders in our industry and European industry feel that way privately. Some are restrained to acknowledge so publicly, out of concern for multiple relationships. And, of course, any experienced world trader is concerned that raising these questions and seeking effective solutions may stir up a different or greater problem.

All of us understand that point, and I will address it further at the conclusion; but let me say that the continuance of the status quo, where the practices on the other side are so much of an anathema to our system and country, is intolerable if we desire to preserve the American system based on private ownership and individual direction of the means of production with a strong propensity for the market being the determinant of how business is earned by each company on its own.

For the good of our trade and broader relations with Japan, the issue must be clearly faced and resolved.

"For the good of our trade and broader relations with Japan, the issue must be clearly faced and resolved."

So, what should we do?

First, the United States should continue to raise to a level of special attention its trade and investment relations with Japan.

Second, the United States should declare the intent and parameters of its policy regarding trade and investment relations with Japan – in a manner that will impress the Japanese with the certainty that policy will be vigorously and consistently implemented – including the following:

"The U.S. believes that all countries benefit from an open competitive environment . . ."

A. The U.S. does not accept that national industrial policies based on non-market mechanisms should enable any country to assume a dominant position in this country's markets. The U.S. believes that all countries benefit from an open, competitive environment that permits market forces to determine success or failure. Those who employ industrial policy to subvert such an environment work against their own long-run interests as well as those of their trading partners.

B. The government will identify the U.S. industries targeted by Japan.

C. The government will take any necessary steps to ensure that such U.S. industries are not placed at disadvantage in competing with Japanese firms whose competence and resources derive from the means noted above.

D. Should Japan adopt and implement substantially free market principles, abandon its target industry policy, and assure that U.S. firms can participate in the Japanese market in a significant way, the U.S. could agree, after a reasonable period of time, to revert to its traditional trade policy posture.

As the above formulation implies, the current U.S. policy of primarily pursuing improved or equivalent access to the Japanese market is an insufficient answer to the problem.

Third, we should reexamine the application of certain antitrust defenses which inequitably favor foreign competitors in our market. This may require a rethinking of the Act of State and Sovereign Compulsion doctrines, which shield foreign producers from antitrust liability here if their anticompetitive conduct is ordained by their national government.

Fourth, we must recast U.S. trade laws to:

- Make targeting by foreign industrial policies, which has produced demonstrable consequences, grounds for relief.
- Assign to the government *affirmative* responsibility to ensure that any part of a competent U.S. industry is not crippled or prevented from maintaining its future competitiveness by such unreasonable or unjustifiable trade practices.
- Modify regulation and enforcement policies which have made remedies all but unattainable.
- Define shorter time periods for implementing provisional actions.
- Permit setting of market share ceilings for the country that targets and bases its practices on nonmarket mechanisms.
- Permit fines or other penalties as well as retroactive application of penalties to recover damages to impaired U.S. industries.
- Our anti-dumping laws should be reexamined with the objective of preventing predatory pricing by foreign suppliers' offerings during the introductory and emerging stages of new high technology.
- Our countervailing duty laws should be reexamined with the objective of assuring that the full benefits of foreign subsidies are actionable.

"... we must recast U.S. trade laws to make targeting by foreign industrial policies ... grounds for relief."

Fifth, the U.S. government should establish a strong surveillance capability to monitor Japanese and other foreign industrial policies aimed at competitive U.S. industries. The results of such monitoring and analysis of the implications for U.S. industries should be reported regularly to the Congress. The government should initiate actions on its own in cases where there is a significant threat to a U.S. industry.

Finally, the U.S. government should bring a complaint or series of complaints under appropriate provisions of the GATT against the actions, policies and practices of the Japanese government that nullify or impair GATT agreements or otherwise are inconsistent with such agreements. The European community has recently begun such a proceeding. The United States should do so also.

". . . this prescription for solution is admittedly vigorous . . ."

This description of the problem and this prescription for solution is admittedly vigorous; but the trade problem that exists is already of a grand scale and predictably will worsen. We have been tiptoeing around this problem, seeking to resolve it with partial measures at best, and ineffective ones at worst.

I regret having to be one who feels compelled to step forth and risk proposing a vigorous program. Hopefully by doing so, it will allow for all of us to deal with the issue in its full dimensions. I invite my associates in industry to join the issue publicly and hopefully support change.

Inescapably, each of us at first will examine this issue from our legitimate positions of self-interest. There will be those who believe as a matter of free trade ideal that no proposal should be considered. As much as some people may privately hope for vigorous solution, there will be the special problems of those with investments or sourcing or resale arrangements, who believe that they can benefit at least temporarily from a retention of the status quo. Others may presume that the trade distortions will somehow not touch them. But anyone in the electronics industry who does not think that the bell tolls for them is ignoring the obvious. They, and their suppliers and customers, are all caught in this storm.

But, will enacting these proposals lead to a chain of retaliatory moves elsewhere? I strongly doubt it. One's intuition may suggest that, but in this instance, the counter-intuitive is more likely. The rest of the world, as do we, sees the Japan problem as special and serious. Many in that rest of the world—certainly the other developed industrial nations—have already positioned themselves more realistically vis-à-vis Japan. They will note our specific bilateral focus. Ours is likely to be judged a salutary and long overdue action that does not and need not affect significantly other trade relations.

Will the Japanese react? I presume so. But, mostly and eventually, I believe they will settle in favorably. When they finally understand, as they clearly do not yet understand, that the net consequences of following the long path we have been on will be unnaturally and unnecessarily destructive to their largest foreign market, and that we and they cannot tolerate that, they will adjust.

I must say we're betting on that, as our company has been and intends to continue to invest our private means there and here to earn further the right to serve a fair share of the Japan market, as well as to retain, as we will, a healthy, privately-earned share of our home market. I presume that initially some of our customers there will wonder if these proposals are the statements of a friend. I respectfully suggest they are. For if some of us don't speak out further to eliminate this engulfing problem before it swells into a national revulsion, we will not have done justice to the cause of a win-win trade objective.

"Our company has been and intends to continue . . . to earn further the right to serve a fair share of the Japan market, as well as . . . our home market."

In the ad campaign I described in my opening, Motorola speaks of winning as we meet the Japanese challenge. But, as we have amplified to Japan's press, we mean—being successful standing toe-to-toe with any Japanese competitor. We don't mean—"We win. You lose."

Both parties must win—remain viable—remain strong. As a matter of fact, at one and the same time we must be customers, suppliers, licensors, licensees, competitors to each other. Among developed industrial nations that means that each must remain viable and strong. Neither party can trade away or lose its industrial sector for some other.

"Japan and the United States must have a win-win . . . relationship."

Japan and the United States must have a win-win, non-dominated, profitable and balanced industrial trade and investment relationship. Serious consideration and implementation of these or similar proposals are essential to restoring confidence in achieving that objective.

The CHAIRMAN. Thank you very much, Mr. Galvin.
Mr. Beré.

STATEMENT OF JAMES F. BERÉ, CHAIRMAN, BORG-WARNER CORP., ON BEHALF OF THE ADVISORY COUNCIL ON JAPAN-UNITED STATES ECONOMIC RELATIONS, CHICAGO, ILL.

Mr. BERÉ. Thank you, Mr. Chairman.

I am president and chief executive officer of Borg-Warner and also serve as the current Chairman of the Japan-United States Advisory Council. The purpose of this Council for nearly 20 years has been to provide a national forum to propose solutions to problems within the Japan-United States economic relationship.

Like Mr. Galvin, I consider it a distinct privilege to be before this committee. I had never heard it described as a choir before, but I do think you will see some differences in our recommendations.

I too have submitted a full statement of my testimony and I will attempt to be brief in outlining what I am going to submit.

First I would like to cover our Borg-Warner experience. For a number of years before and just after the Second World War, Borg-Warner was an exporter to Japan. When in the midfifties the tariff walls began to rise to protect Japan's so-called infant industries, we undertook a series of negotiations leading to the formation of manufacturing joint ventures licensed with our Borg-Warner technology.

Our companies there are divided among automotive components production, thermoplastics, air-conditioning, and, more recently, petrochemical derivatives. In being there, deeply involved with our Japanese colleagues, we have had ample opportunity to study from within the now-vaunted Japanese management techniques and productivity techniques.

In 1974, when the Government of Japan allowed wholly owned equity trading companies to be established, we set up in Tokyo our Borg-Warner Japan Trading Co. From that date, our trading management in Japan have faced all the well-publicized tariff and nontariff barriers and have had varying degrees of success in surmounting them. We continue, however, to project a long-term marketing effort in Japan with products manufactured in the United States and elsewhere exported to the Japanese market.

Now, as to the Advisory Council on Japan-United States Economic Relations and the work we are doing. In May of 1981, the Council received an invitation from then Secretary of State Haig to take over the followup work of the former Wise Men's Group recommendations relating to the private sector. Our Advisory Council agreed to do so.

As a first step, the Council established a program of study to implement the recommendations in the Wise Men's report to the President, as well as to identify fresh initiatives for bringing greater balance into the United States-Japan trade and investment relationships. We established three task forces:

Trade Laws and Practices, chaired by Mr. Eberle, president of Manchester Associates and former, one-time special trade representative;

On Agriculture, chaired by Mr. Orville Freeman, president, Business International Corporation and one-time Secretary of Agriculture;

Trade and Services, chaired by John Haley, executive vice president of Chase Manhattan Bank.

We are today halfway through the task force project, which is matched in Japan by an equal task force study effort. To complete our work, we expect to continue to work closely with the committees of Congress, as well as with the executive branch, concerning current Japan-United States economic problems.

In this connection, you will be interested to learn that the Americans now stand accused by our Japanese friends of working closely with our Government in matters of United States-Japan business relation. I hope it is true that there is now an America, incorporated, in matters of trade policy.

Now to briefly review Japanese actions over the past several months. I appreciate the initiatives of the Japanese Government and I am fully aware of the political courage it has taken to effect these initiatives.

In response to continued U.S. Government pressure, the so-called second trade liberalization program was announced last May. Since this all is largely a statement of intent, we do not know how serious the Japanese Government is in implementing future actions. The response of the United States Government is a right one, to send missions, monthly if necessary, to meet with Japanese Government officials and follow up on specific implementation. However, the results of the first U.S. mission in early August is disappointing.

The second part of this May's package consisted of a public statement by Prime Minister Suzuki on opening the Japanese market, calling on the Japanese people to welcome foreign products and investment. This statement was welcomed by the U.S. officials, but it is meaningful only if the Japanese private sector, through such distinguished organizations as Keidanren, enthusiastically support and encourage it. Regretfully, this has not been the case so far. The Prime Minister's call remains largely unnoticed and unheeded.

On the other hand, we note from a recent "Japan Economic Journal" that the influential Japan Foreign Trade Council has urged its government to take steps, through credit financing, to expand exports. If implemented, this is more trouble for us all.

This brings up the subject of the yen-dollar relationship and its strong negative effect on our trade with Japan. Attached to my submitted testimony is a joint statement on the yen-dollar exchange rates issued following our most recent meeting in Japan at our annual U.S.-Japan Businessmen's Conference.

Since the statement, made in July this year, the yen has continued to stay at unrealistically high levels, impeding imports into the Japan market. Accusations of manipulation of the yen are met with convincing denials from our Japanese colleagues in business and financial circles. Trade stalemate and imbalance, unsatisfactory to both America and Japan, continues.

The National Association of Manufacturers, as well as our Advisory Council, all have been studying this subject. However, I would like to see a thorough study of the yen-dollar relationship by a government study, possibly by the General Accounting Office. We must illuminate a situation still felt to be murky by many whose trade with Japan continues to suffer due to an undervalued yen. We could sell manufactured goods in Japan in mounting volumes with a yen at 200 to the dollar. At 250 or 260, as it is today, it is just not to be.

Despite Japan's impressive economic accomplishments, I believe her self-image, many of her trade practices, and her role in the international economic community have not evolved accordingly. In many respects, Japan's management of its interaction with its trading partners is incompatible with the economic stature it has achieved. Guided by its business leaders, Japan must fully embrace the responsibility of leadership at the international table.

However, we in the United States, both private sector and Government, have our own task. We cannot use Japan as a scapegoat for that which we should be doing. We have talked about changing the import mood in Japan. I suggest we have to change the export mood in the United States.

There are four general areas in which we must continue to concentrate. The first is organizational in nature. I refer to the foreign commercial service program of the Department of Commerce. For it to be more effective, better funding must be available to hire qualified, experienced personnel. Legislation to grant incentive to Foreign Commercial Service Officers for meritorious performance is a major step in the right direction.

The second area covers export disincentives. When trade is held hostage to foreign policy decisions, distorting bilateral trade relationships, and often damaging a wide range of America's trade partnerships, we are seen by too many of our partners as undependable trade allies.

In addition, the fear of antitrust implications must be relieved if we are to convince a host of U.S. exporters that they can legally combine products and services as do our foreign competitors.

A third area concerns export incentives. We anticipate that export trading company legislation now pending will further help in releasing U.S. export energies. In addition, there must be strongly competitive export financing if we are to hold our own in the trading world.

A fourth area concerns productivity. Obviously, the private sector has much to concentrate on in its modernization of our industrial machine. But there is much that government can do to help. I believe that an important increase in the investment tax credit is essential in bringing about needed changes in today's capital investment reluctance. Technological innovation is the largest single factor in an analysis of America's historical productivity, which was alluded to by Senator Glenn. Let us not impede the strongest positive force in America's industrial competitiveness.

I also look to our educational system in America to make our students truly productive citizens. And I look to a diminishing of the adversary tension among government, business, and labor. The task facing us in world trade calls for a triumvirate of effort.

In all of these issues, we must appreciate the fact that Japan, throughout its society and industry, has established, a strong competitive posture. Given this fact, our principal aim is to energize commercial and industrial productivity in the United States, thereby salvaging our role in the world market, a role from which we have been displaced too often and too quickly by Japan.

In conclusion, it seems to me very important that Japan's recently stated objective to liberalize import trade and investment must be monitored closely, regularly, and by more senior government representatives than has recently been the case. In fact, I have increasing concern that our present level and stature of dialog with the Japanese have lost much of their impact by dwelling on trade aberrations of which each accuses the other.

While these technical talks must continue, I feel increasingly that they must be complemented with a bilateral dialog at the highest level of government. I look to see a restoration of regular bilateral Cabinet-level meetings, whose consultations would restore a more positive character and tone to our relationship. Furthermore, if the two countries saw their President and Prime Minister meeting, it would restore to public thought in both nations a greatly needed, more positive, less cynical attitude toward the other, reminding each of us that we have an important dependency on each other.

On the U.S. side, we must get our policy act together. This could take the shape of a national economic council similar to the National Security Council, which would advise the President on complete economic issues.

To close, again I want to pay tribute to this committee and others in the Congress whose persistent attention to our relationship with Japan is serving all of us in business, labor, and government. Thank you.

[Mr. Beré's prepared statement follows:]

PREPARED STATEMENT OF JAMES F. BERÉ

I am James F. Beré, Chairman of Borg-Warner Corporation in Chicago. I am also serving as Chairman of the Advisory Council on Japan-U.S. Economic Relations. The Advisory Council is composed of 60 top management leaders of American companies engaged in a wide range of business activities between the United States and Japan. The purpose of the Council is to provide a national forum to propose solutions to problems within the Japan-U.S. economic relationship which may limit trade and investment between the two countries. Established in 1971, the Council operates under the administrative aegis of the Chamber of Commerce of the United States, but is entirely autonomous in matters of policy.

I appreciate the opportunity to testify today. My comments will deal briefly with Borg-Warner's experience in Japan, the work we are doing in the Advisory Council, and some concluding thoughts and recommendations on the overall economic relationship with Japan.

BORG-WARNER EXPERIENCE

First, our Borg-Warner experience. For a number of years before and just after the second World War, Borg-Warner was an exporter to Japan. When, in the mid-1950s the tariff walls began to rise to protect Japan's so-called "infant industries" we undertook a series of negotiations leading to the formation of manufacturing joint ventures licensed with our Borg-Warner technology. Our companies there are divided among automotive component production, thermoplastics, air conditioning and more recently petrochemical derivatives and nuclear power station servicing. And being there, deeply involved with our Japanese colleagues, we have had ample opportunity to study from within the now vaunted Japanese management techniques and productivity practices.

In 1974, when the government of Japan allowed wholly-owned foreign equity trading companies to be established, we in Borg-Warner set up in Tokyo our Japan trading company.

From that date, our trading company management and marketers in Japan have faced all of the well-publicized tariff and non-tariff barriers, and have had varying degrees of success in surmounting them. It is our intent to continue surmounting them.

Therefore, we continue to project a long-term marketing effort in Japan with products manufactured elsewhere and exported to the Japanese market. Additionally, we long ago learned that having our investment in place there is the form of joint venture manufacturing companies brought a correlation of export opportunities from our American production to the market created in and through the joint ventures.

Whatever the long-term manufacturing position of the American in Japan will be, there is, and will be a market. We are determined in Borg-Warner to command a larger share of that market for our products. I sense a growing intent in many American companies to become busier in the very lively Japan market.

In this task, we pay tribute to the efforts of our own government through our Special Trade Representative, through the Foreign Commercial Service Officers abroad, operating under the jurisdiction of the Department of Commerce, through the Congressional Committees which, in their visits to Japan have concentrated on the huge trade imbalance we continue to suffer in the bilateral trade account. And in Japan itself, the efforts of the American Chamber of Commerce there and its Trade Study Group, and our Embassy Staff have given an increasingly clear focus on the reasons that exist in Japan for the trade imbalance, and on the measures that must be taken by us Americans to bring the trade account back to a more respectable balance.

ADVISORY COUNCIL WORK

Now, as to the Advisory Council on Japan–U.S. Economic Relations and the work we are doing. In May of 1981, the Council received an invitation from Secretary of State Alexander Haig to take over the follow-up work of the Wise Men's Group recommendations relating to the private sector.

You will perhaps recall that the Japan–U.S. Economic Relations Group (popularly known as the Wise Men's Group) was established by President Carter and Prime Minister Ohira in 1979. The mandate of this Group, under the leadership of Ambassadors Robert S. Ingersoll and Nobuhiko Ushiba, was to study and make recommendations concerning the bilateral economic relationship.

The members of our Advisory Council agreed to accept the State Department's invitation, and last January, I met with Secretary Haig. As a first step, the Council established a program of study, through some funding made available by the U.S.-Japan Foundation, to implement the recommendations of the Wise Men, as well as to identify fresh initiatives for bringing greater harmony and balance into the U.S.-Japan trade and investment relationship. We established three Task Forces:

Trade Laws and Practices, chaired by Mr. William Ebere, President, Manchester Associates.

Agriculture, chaired by Mr. Orville Freeman, President, Business International Corporation.

Trade in Services, chaired by Mr. John Haley, Executive Vice President, Chase Manhattan Bank.

I want to emphasize that our counterpart businessmen's group in Japan, the Japan-U.S. Economic Council, chaired by Norishige Hasegawa of Sumitomo Chemical, and a Vice Chairman of KEIDANREN, has also established three Task Forces. Our objective is to complete the next phase of our work with bilateral recommendations, by June of 1983. If we cannot reach joint agreement, U.S. members will issue our own independently of the Japanese. On the basis of our July 1982 meeting with Japanese businessmen, I am convinced that the Task Force schedule will be met, and am hopeful that a binational spirit will prevail and that a concrete, realistic set of recommendations to our governments and our private sectors, will be published.

So, this testimony is really an interim report on where our work stands, halfway through the Task Force project. We expect to continue to work closely with Congress, as well as with the Executive Branch, concerning current Japan-U.S. economic problems. In this connection, you will be interested to learn that the Americans now stand accused by our Japanese friends of bringing "collusion" into the United States' government and business relationship, as we deal ever more closely with trade matters. I hope it is true.

TRADE LAWS AND PRACTICES

Allow me to first report on the interim work of our Task Force on Trade Law and Practices. We have presented a paper on this subject to the Japanese, and are awaiting their response. In turn, the Japanese have submitted to us a list of concerns about U.S. legal procedures affecting trade and investment.

The U.S. Task Force is working on three problem areas:

Explicit Government impediments to equitable market access

We feel that the fact that Japan has made considerable progress toward formal liberalization is not persuasive evidence that its market is fully open. Some tariffs as well as non-tariff measures are still major impediments to imports of American manufactured goods. Moreover, U.S. investors are still not accorded full national treatment. Japan's recent actions to resolve these problems and pledges to take further steps to address them are welcome. Specifically, the Task Force recommends:

Reducing tariffs on items of export interest to the United States;

Phasing out remaining quotas and streamlining their administration as this occurs;

Undertaking further reforms of standards setting and administration;

Further reducing requirements that importers obtain approval from other ministries prior to clearing customs;

Creating additional opportunities for participation by U.S. firms in Japanese government procurement;

Making policies on foreign direct investment fully transparent and providing full national treatment for foreign investors.

Structural aspects of Japan's economy impeding equitable market access

We recognize that the United States and Japan, despite the many commonalities, have fundamentally different economic structures, institutions, and practices. Some Japanese institutions and practices such as aid to targeted industries, cartels, the distribution system, and administrative guidance, have long impeded the ability of U.S. firms to succeed in Japan.

Unquestionably, there are steps Japan can take to create broader opportunities for U.S. goods and investment in Japan, to achieve better comparability in commercial opportunities between the two countries. The Task Force recommends:

That Japan cease shielding "targeted industries" from import competition;

That access to Japan's capital market be fully liberalized;

That the administration of depressed industry cartels allow imports to achieve market-determined levels of sales.

Attitudinal impediments to balanced economic relations

Liberalization of Japan's market access, important as it is, will not alone be sufficient to achieve the right balance of opportunities in our two economies. Despite tremendous gains in the strength of Japan's economy, outmoded attitudes toward foreign participation in it persist. Changes in these attitudes in Japan—among the public at large, government bureaucrats, and company purchasing executives—are absolutely necessary.

The Task Force recommends:

Government and industry leaders make public statements similar to that of Prime Minister Suzuki acknowledging that Japan's interests would be best served by welcoming foreign goods and investment to support the open trading system;

The private sector sponsor a public interest advertising campaign to reinforce this concept;

Japanese companies, particularly those with significant U.S. market shares, exert special efforts to procure from U.S. suppliers when competitive factors demonstrate them to offer superior goods;

That both governments take further efforts (described in the paper) to promote greater mutual understanding.

AGRICULTURAL ISSUES

I will now turn to the interim work of our Task Force on Agriculture. Japan's agricultural trade strategy is to import raw agricultural products that it cannot produce itself in adequate amounts, and to subsidize the production of high value products such as meats, fruits, and vegetables while restricting imports of these commodities. In 1981, nearly 96 percent of the value of U.S. agricultural exports to Japan were raw agricultural and forestry products; grains, soybeans and cotton represented 71 percent of the total value.

Despite rapid growth in U.S. exports of agricultural exports to Japan, the Japanese market remains one of the most highly protected in the free world. Japan's agricultural policies have led to an inefficient agriculture, created an insular and inefficient distribution system, and imposed a high cost on its own consumers and on exporters of agricultural products by maintaining the highest food prices in the world.

The forms of agricultural trade restrictions used by Japan include:

Quotas on about 22 agricultural items, including beef and citrus, which are illegal under the GATT;

The use of government or quasi-government monopolies that prohibit or severely limit the ability of foreign firms to engage directly in processing and distribution in Japan; and

The use of complicated licensing and tendering systems and other business practices for many imported items that perpetuate an archaic and inefficient distribution system, restrict imports, and all but rules out participation by foreign firms.

Japan's agricultural and food policies are a highly visible aberration in United States-Japan economic relations. We see Japan as exploiting its comparative advantage in industry and trade while thwarting other countries in their pursuit of similar interests in the agricultural area.

Our Advisory Council has strongly urged the Japanese to reform their domestic food and agricultural policies, and to liberalize agricultural imports. (I submit for the record a copy of the U.S. Advisory Council's current agricultural position paper.) We have submitted our paper to the Japanese and are waiting for their response.

Industrial interests in Japan appear to be sympathetic to a relaxation of agricultural protectionism. The problem is that politically powerful agricultural interests still refuse to discuss any aspect of liberalizing agricultural imports.

We note that the intransigence of Japanese agricultural interests is based on an extremely narrow view of what really determines rural welfare in Japan. The latest information available shows that Japan's farm households receive only about 20 percent of their income from farming and nearly 80 percent of their income from non-farm employment. Furthermore, average income of rural households is about 15 percent greater than that of urban households.

If agricultural trade issues were to continue to escalate and contribute to American restrictions on Japan's industrial export potential, Japan's industrial growth and employment will be further depressed. It is easy to predict then that the rural sector will suffer considerably, since most rural household earnings are from non-farm sources.

We have urged our Japanese counterparts to seriously consider actions to reform food and agricultural policies on a number of fronts.

Japan is heavily dependent upon food imports and has historically been concerned about food security. Japan can improve its food security by:

Carrying larger stocks of grains and oilseeds, adding to them in times of large world supplies and low prices and drawing upon these reserves in times of tight world supplies, and;

Shifting land from the production of rice, in chronic surplus, to forage and cattle production. If food shortages arose, this land could revert back to rice production.

Japan should also recognize the important role of the United States and the high costs it bears in maintaining large grain reserves and stabilizing world food supplies. Japan benefits very directly from these U.S. efforts in terms of an assured supply of grain at relatively stable prices.

Japan should move to increase productivity and restructure its agriculture to become more competitive with the rest of the world. These developments would lower food prices and stimulate consumption. As part of these reforms, the Japanese Government should rely less on import restrictions and more on direct subsidies to producers as the means for protecting farm income.

Agricultural trade restrictions include import quotas in 22 categories of food and agricultural products. These are illegal under the GATT and will have to be dealt with by Japan. In addition, there are a variety of licensing systems and business practices which effectively limit agricultural imports. In some instances, these practices are as restrictive as quotas.

TRADE IN SERVICES

Our Task Force on Services is using a somewhat different approach than the other two Task Forces. Seven study groups have been formed, covering the following areas: Accounting, Air/shipping, Commercial Banking, Data Processing, Insurance, Investment Banking, Legal.

A total of 32 service issues have been identified and submitted to our counterpart Japanese Task Force in a July meeting in Japan. We are now awaiting the Japanese response. However, at least one of the 32 issues has been settled since our July meeting. Japan has evidently now agreed to permit U.S. flag vessels to transport tobacco from the U.S. to their market.

In the interests of brevity, I am attaching for the record the full U.S. Task Forces list of the 32 issues. It has to be recognized that the services area is especially important to our economy, and heretofore, relatively neglected as a policy issue. Rising service account surpluses (and chronic merchandise deficits) have made the performance of service industries vital in a balance of payments context. We are impressed with the positive action of Ambassador Brock and others of the U.S. Government in dealing with barriers in other countries to our trade in services.

OVERALL JAPAN-UNITED STATES ECONOMIC RELATIONSHIPS

If I may, I would like to briefly review Japanese actions over the past several months. I appreciate the initiatives of the Japanese Government, and I am fully aware of the political courage it has taken to effect these initiatives. I'll let you judge whether they are satisfactory.

In November of last year, Prime Minister Suzuki established a group in the Liberal Democratic Party (LDP) with the mandate of studying and eliminating nontariff barriers. The Chairman of that group is the respected former Minister of International Trade, Masumi Esaki.

In December, the Japanese Government announced an acceleration of tariff reductions on over 1,500 items negotiated in the MTN. The U.S. Government response was, rightfully, we think to acknowledge the cuts as being a step in the right direction, while emphasizing that this was a limited response that did not address the more substantial nature of the problem.

In January of this year, the Esaki Group announced the results of its study, which came to be known as the first trade liberalization package. This so-called package consisted of a list of 99 non-tariff barriers of which 67 would be acted on. The U.S. Government response was, again rightfully, we think, one of disappointment at this limited effort, in that only 20 of the 67 measures were of any actual or potential importance.

Also in January, the Office of the Trade Ombudsman (OTO) was established by the Japanese Government "for the purposes of settling grievances related to the openness of the Japanese market, including import inspection procedures." The Office is headed by the Deputy Chief Cabinet Secretary. While we applaud this initiative, we wish that the OTO had some enforcement authority. Certainly, there has been some reluctance on the part of the U.S. businessmen in Japan to go to the OTO with problems their company has been facing, due to government restrictions and regulations which are unique to Japan.

In response to continued U.S. Government pressure, the so-called second trade liberalization program was announced last May. This package consisted of two parts: eight general categories consisting of a wide range of actions the Japanese Government plans to take covering such areas as lower tariffs, import inspection procedures, trade in services, distribution system and high technology. Since this all is largely a statement of intent, we don't know how serious the Japanese Government is in implementing future actions. The response of the U.S. Government is a right one, to send missions, monthly if necessary to meet with Japanese Government officials to follow up on specific implementation. However, the results of the first U.S. mission in early August are disappointing.

The second part of this May's package consisted of a public statement by Prime Minister Suzuki on opening the Japanese market, calling on the Japanese people to welcome foreign products and investment. This statement was welcomed by U.S. Government officials, too enthusiastically we think. The Suzuki public commitment is meaningful only if the Japanese private sector through such distinguished organizations as KEIDANREN enthusiastically support and encourage it. Regretfully, this has not been the case so far. The Prime Minister's call remains largely unnoticed and unheeded.

I would like to briefly discuss the subject of the Yen-Dollar relationship and its strong negative effect on our trade with Japan. Attached to my submitted testimony is the joint statement on the Yen/Dollar Exchange Rates issued following our most recent meeting in Japan at our annual U.S.-Japan Businessmen's Conference.

Since the statement, made in July this year, the yen has continued to stay at unrealistically low levels, impeding imports into the Japan market.

Accusations of "manipulation" are met with convincing denials from our Japanese colleagues in business and financial circles. Trade stalemate, unsatisfactory to both America and Japan continues. The National Association of Manufacturers, as well as our Advisory Council, have been studying this subject.

I would like to see a thorough government study of the Yen/Dollar relationship, for example by the General Accounting Office. We must illuminate a situation still felt to be murky by many whose trade with Japan continues to suffer due to an undervalued yen.

Despite Japan's impressive economic accomplishments, its self-image, many of its trade practices, and its role in the international economic community have not evolved accordingly. In many respects, Japan's management of its interaction with its trading partners is incompatible with the economic stature it has achieved. Some of its modes of operating are no longer necessary to guarantee Japan's economic security and prosperity, and may even imperil them.

Preservation of the open world trading system is clearly in Japan's interest. Leading that effort has always fallen to the strongest economic powers. Japan is now in that situation. Guided by its business leaders, Japan must fully embrace the responsibility of leadership.

We in the United States have our own task. We cannot use Japan as a scapegoat for that which we should be doing. And by we, I mean the private sector as well as our government.

We have talked about changing the import mood in Japan. I suggest that we have to change the export mood in the United States.

There are four general areas which we must continue to concentrate on. The first is organizational in nature. I refer to the Foreign Commercial Service program of the Department of Commerce. For it to be effective, funding must be available to hire qualified, experienced personnel. Legislation to grant incentives to Foreign Commerce Service Officers for meritorious performance is a major step in the right direction.

A second area covers export disincentives. An example is the imposition of export controls because of sometimes unrealistic foreign policy objectives. In addition, the fear of antitrust implications must be relieved if we are to convince a host of U.S. exporters that they can legally combine products and services as do our foreign competitors.

A third area concerns export incentives. We anticipate that Export Trading Company legislation now pending will further help in releasing U.S. export energies. In addition, there must be competitive financing if we are to hold our own in a predatory trading world.

A fourth area concerns productivity. Obviously the private sector has much to concentrate on in modernizing our industrial machine. But there is much that government can do to help. I believe that a significant increase in the investment tax credit is essential in bringing about needed changes in today's capital investment reluctance.

Obviously, the lowering of interest rates is crucial, and we can only hope for their continued decline. Technological innovation is the largest single factor in an analysis of America's historical productivity. Let us not impede the strongest positive force in America's industrial competitiveness.

In all of these issues, we must appreciate the fact that it is Japan which has established such a strong competitive posture. Given this fact, our principal aim is to energize commercial and industrial productivity in the United States, thereby salvaging our role in the world market—a role from which we have been displaced too often, and too quickly, by Japan.

CONCLUSION

It seems to me very important that Japan's recently stated objective to liberalize import trade and investment must be monitored closely, regularly and by more senior government representatives than has recently been the case. In fact, I have increasing concern that our present level and stature of dialogue with the Japanese have lost most of their impact by dwelling on trade aberrations of which each accuse the other. While these technical talks must continue, I feel increasingly that they must be complemented with a bilateral dialogue at the highest level of government.

I look to see a restoration of periodic bilateral cabinet level meetings, which would restore the Japan-U.S. economic relationship to its proper balance, thereby restoring a positive character to our bilateral relationship. If the countries saw their President and Prime Minister meeting, it would restore to public thought in both nations a more positive attitude, reminding each other that they have an important dependency upon one another.

On the U.S. side, we must get our policy act together. I therefore suggest the formation of a National Economic Council, patterned after the National Security Council, to advise the President on complex economic issues.

To close, I want to quote my fellow Council member Ed Spencer (Chairman and Chief Executive Officer, Honeywell, Inc.), who said in a 1981 speech in Tokyo: both Japan and the United States "have a great need to maintain a free international environment for exports, imports, capital flows and productive investments. Closed capital markets and discriminative policies against each other's products is a course that will only lead to retaliation and disaster."

I can think of no more forceful way of stating the challenge facing the Japan-U.S. economic relationship.

[ATTACHMENT A]

SPECIAL STATEMENT ON YEN/DOLLAR EXCHANGE RATES, HAKONE, JAPAN, JULY 7-10, 1982, JAPAN-UNITED STATES BUSINESSMEN'S CONFERENCE

At the 19th Japan-U.S. Businessmen's Conference, Japanese and American businessmen agreed that the current misalignment of Yen/dollar exchange rates, which has resulted in a substantial undervaluation of the Yen and overvaluation of the dollar in relation to one another, is one of the factors responsible for an unprecedented imbalance in the trade accounts between the two countries.

Both Japanese and U.S. businessmen are vitally concerned with the serious tensions which such an imbalance have created in the economic relations between Japan and the United States. Both sides agreed that this relationship has been of great benefit to both countries over many years, and both, therefore agreed that appropriate steps should be taken in both countries to bring about a more realistic and stable Yen/dollar exchange rate, thereby contributing to a lessening of tensions over trade matters which threaten to undermine the positive contacts established over many years.

In discussing this matter, the two groups agreed that a realistic Yen/dollar exchange rate should adequately reflect the relative economic conditions of the two countries and that, in the present circumstances, this implies a realistic revaluation of the Yen relative to the U.S. dollar. It was agreed that this could best be achieved by specific actions which both countries' governments should be urged to take as soon as possible. It was also agreed that each country should act quickly and without waiting for actions on the part of the other, thereby contributing to the earliest possible amelioration of the present situation.

With respect to the United States, it was felt that the most important step to be taken would be to change as soon as possible the mix between monetary and fiscal policies so as to bring about a reduction in the excessively high level of U.S. interest rates. This requires importantly an early reduction in the large and prospective deficit in the federal budget.

With respect to Japan, it was felt that the most important step to be taken would be to continue liberalization of the Japanese capital markets, emphasizing particularly capital inflows at this time, achieving an appropriate mix of monetary and fiscal policies, and working actively to attain the longer-term goal of according key currency status to the Yen in the international marketplace.

[ATTACHMENT B]

UNITED STATES-JAPAN AGRICULTURAL TRADE ISSUES, A SERIOUS DILEMMA

I. BACKGROUND

A. Agricultural trade

Japan is the world's largest agricultural importer and the largest national market for U.S. agricultural exports. Japan's agricultural imports in 1980 were valued at $17.6 billion with the United States supplying 40 percent.

The value of U.S. agricultural exports to Japan in 1980 was $6.1 billion or 15 percent of total U.S. agricultural exports. Between 1976 and 1980, U.S. agricultural exports to Japan grew by 72 percent or by 14.5 percent a year.

Most U.S. agricultural exports to Japan are basic commodities, nearly 87 percent in 1980. Of these exports, 71 percent consisted of feed grains, wheat, soybeans, and cotton. The remaining 13 percent of U.S. exports consisted of food products with citrus, beef, pork, and poultry meat accounting for about half of the value of this category of trade.

Japan's basic agricultural trade strategy is to import raw agricultural products whose production it cannot increase rapidly or at a "reasonable" cost, and to maximize its own production of high value products such as meats, fruits, and vegetables. However, this trade strategy is not without its contradictions. In general, raw material imports are not subject to severe trade restrictions except in those cases where the imported item is a close substitute for a domestically produced product; e.g., wheat which substitutes for rice, and corn for starch use which substitutes for domestic potatoes used for the same purpose.

Processed or semi-processed agricultural products are subject to a variety of quotas and tariffs to protect domestic producers. For example, there are quotas on beef and oranges, tariffs on pork, stringent quarantine restrictions on fresh produce, and health regulations on processed foods. At the same time, a few commodities such as lemons, almonds, and poultry meat involve few trade barriers.

Despite these trade barriers, U.S. agricultural exports to Japan have grown rapidly. This fact is recognized and appreciated by the United States. However, important potential gains in U.S. exports still exist.

The Wisemen's Report addressed the issue of agricultural trade and made recommendations on ways to expand Japan's agricultural imports. The report focused on two important aspects of Japan's agricultural policies—the high cost of protectionism and the need to restructure agriculture. President Reagan and Prime Minister Suzuki agreed that the two governments should address the recommendations of the Wisemen's Report and hoped the recommendations would be studied by the Japan-U.S. Businessmen's Conference.

B. Agriculture and total trade

As discussed in the U.S. Task Force paper, Agriculture: A Major Dilemma in United States-Japan Trade Relations, Japan's highly protectionist food and agricultural policies are a potentially explosive issue that could result in irreparable harm to United States-Japan economic relations. On the one hand, Japan has aggressively exploited its comparative advantage in industry and trade. On the other, it has effectively prevented efficient agricultural producers and exporters from doing the same with respect to the Japanese market. Japan's sharply different approaches to industry and agriculture are highly visible and sensitive issues in the United States and contribute significantly to the growing protectionist mood in the U.S. Congress. It is imperative that this dilemma be discussed openly and frankly in order to defuse a dangerous situation. A constructive dialog on bilateral and international economic issues is essential to avoid serious deterioration in United States-Japan relations, something that neither country would like to see happen.

C. Japan's high-cost agriculture

Japanese food and agricultural policies have resulted in an inefficient agriculture that has been very costly in terms of government subsidies and high consumer food prices. The reasons for these policies are complex and deeply rooted in Japanese history and social structure.

Because of the nature of Japan's land resources, it has always been a country of small farms or at least small operating units. The pattern of small farms was reinforced by the post-WW II land reform. In addition, Japanese society has strong traditional roots in rural areas. This is reflected in people's strong attachment to the land and the disproportionate voting strength of rural areas, even though Japan today is an urban-industrial country.

Japan has also been preoccupied with food security for sixty years or more. It is a country that has known food shortages and has become increasingly dependent on imported foodstuffs. Despite the fact that the degree of food self-sufficiency has continued to decline, as one would expect of a rapidly growing industrial nation with a limited agricultural base, Japanese society continues to cling to the notion that it must preserve its food production base even at an exorbitant cost.

The above factors are reinforced by Japan's homogenous society with an insular structure that is strongly biased against foreign intrusion. This has resulted in a strong tendency to exclude foreign involvement in industry and agriculture.

Japan's food and agricultural system has been strongly insulated from foreign competition and the realities of world market conditions. This situation stands in stark contrast to Japan's aggressive international approach to industrial production and exports.

Japanese food and agricultural policies have seriously constrained food imports but have by no means stopped them from growing. Japan's desire to upgrade diets through increased consumption of animal proteins, combined with rapid economic growth, has led to a marked expansion in imports of basic feedstuffs and considerable growth in some food items. But major impediments to expanding food and agricultural imports remain in terms of restrictions on imports and their distribution in the domestic market.

Modernizing its food and agricultural system and liberalizing trade will continue to be a major policy concern for Japan. Continued success of Japan's industrial export strategy may well depend on its willingness to reform and modernize its food and agricultural sectors in ways that are more consistent with the concept of free and open trade practiced in most of the industrialized world.

II. AREAS OF POSSIBLE INTERNATIONAL COOPERATION

Various Japanese groups have indicated an interest in promoting cooperation between the U.S. and Japan to deal with world food issues, apart from specific bilateral trade issues. There are three areas where mutual cooperation could help improve the food situation in developing countries, especially very poor nations with serious hunger or malnutrition problems. These are: (a) emergency food assistance; (b) food reserves in developing countries that experience wide fluctuations in food production and supplies; and (c) technical assistance to increase food production.

A. Emergency food assistance

In almost every year there are places in the world that require emergency food assistance as a result of war, drought, floods, and other natural or manmade disasters. Typically, these needs involve poor countries that do not have the financial resources to purchase the food they need. There are international as well as national programs to deal with these problems, but these efforts are generally inadequate to meet emergency food needs fully.

Japanese interests have proposed making a larger contribution to meet emergency food needs, using foodstuffs purchased in the U.S. Such efforts should be discussed.

B. Food reserves in developing countries

An effort was made during the last round of negotiations of an International Grain Agreement to develop an internationally coordinated system of national grain reserves to be held in both developed and developing countries. As discussed earlier, Japan opposed establishing its own grain reserve program. We hope Japan will reconsider its position in view of its concern with its own food security.

Japan should also join the U.S. in a concerted effort to improve the food security of those developing countries that need them. These efforts might involve either the building of physical grain reserves or financial contributions to a financial reserve (insurance scheme) which has received serious consideration in national and international circles. Under a financial food insurance scheme, both developed and developing countries could make financial contributions, and participating developing countries would be able to withdraw financial resources to buy food in times of need.

C. Technical assistance

Food production in many developing countries, especially in Africa, has not kept pace with population growth, forcing them to become increasingly dependent on imports which they can ill afford. There are compelling developmental and humanitarian reasons to help these nations do a better job of increasing food production. The U.S. and Japan both have highly developed scientifically based agricultures. Their knowledge and scientific skills, which have already helped a great number of developing countries, should be used more aggressively to solve the serious food and nutritional problems remaining in the developing world. Consideration should be given to a joint effort by the two countries directed at solving the critical world hunger and malnutrition problems.

III. TRADE AND JAPAN'S FOOD AND AGRICULTURAL POLICIES

Japan's food and agricultural policies address four economic, social, and political issues: Self-sufficiency; Food security; Agricultural productivity; and Farm income and rural welfare.

A. Self-sufficiency

Japan has used the food security argument and the need to maintain a high degree of food self-sufficiency to prevent liberalization in agricultural trade. This policy has been extremely costly and has not prevented Japan from becoming more dependent upon food imports.

JAPAN'S DEGREE OF SELF-SUFFICIENCY

[In percent]

	1960	1970	1975	1978	1980
Food grains	90	79	76	75	62
Rice	102	106	110	111	[1] 87
Wheat	39	9	4	6	10
Feed grains	66	6	2	2	2
Soybeans	44	13	9	9	4
Vegetables	100	99	99	97	97
Fruit	100	84	84	78	81
Dairy products	87	89	82	89	86
Eggs	101	97	97	97	98
Meats	93	89	77	79	81
All food	91	79	76	75	NA

[1] Based on production and excludes stocks.

Source: Hayami, Yujiro "Agricultural Problems in Japan's External Economic Coordinations"; processed, undated; and U.S. Agricultural Attaché Report, Feb. 22, 1982.

Japan has a limited agricultural land base relative to its population. Land productivity is already high, and further gains in productivity cannot possibly reduce dependence on imports, given continued growth in demand. Despite high food prices, rapid income growth has increased the demand for food substantially, and this trend will continue. With higher incomes, the Japanese people have upgraded their diets and increased their consumption of meat, poultry, dairy products, fruits, and vegetables. This has resulted in growing imports of feedstuff, and rising demand for meats, fruits, and vegetables. Consumption of the latter group of foods has been constrained by high prices and only modest expansion in import quotas.

Kenzo Hemmi calculated that the cost of protecting Japan's domestic agriculture amounted to 51 percent of agriculture's gross domestic production in the late 1960's,[1] compared with 38 percent for the U.S. in the same period.[2] The total cost of agricultural protection includes both higher consumer prices and direct government subsidies. The cost of protecting Japan's agriculture is probably even higher today than it was in the late 1960's, and the U.S. cost is much lower.

With continued economic growth, Japan will become more dependent on food imports. Stimulating domestic production at extremely high costs is not the answer to Japan's self-sufficiency problem; it will not even be possible to maintain current levels of self-sufficiency. Therefore, the self-sufficiency argument for maintaining trade barriers has no realistic justification.

B. Food security

As a nation heavily dependent on food imports, Japan has a justifiable concern about food security, in terms of both temporary and longer-term disruptions in supply. There are several viable options for dealing with Japan's food security problem.

First, Japan should stock large amounts of food and feedgrains and oilseeds as a cushion against world shortages, high prices, and possible disruption of imports. These stocks can be drawn upon in periods of tight supplies and replenished when world supplies are large and prices are low. This approach would also help stabilize world prices. During the last negotiation of an International Grains Arrangement, Japan refused to back a proposal to implement a system of national grain reserves. This action questions how serious Japan is about food security. Unilateral action to stock commodities would not only make sense but also demonstrate that Japan is truly concerned about its food security.

Second, Japan should recognize the important unilateral contributions the U.S. has made toward stabilizing food supplies since the early 1970's. Starting in 1977, the U.S. established and has maintained a substantial farmer-owned grain reserve (FOR). Currently, this reserve contains over 15 mmt of wheat and nearly 40 mmt of coarse grains, in addition to direct government ownership of 5 mmt of wheat and 8.5 mmt of coarse grains.

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[1] Hemmi, Kenzo, "The Future Role and Costs of the Agricultural Sector in Industrialized Countries." In Wolfgang Michalski ed. "The Future of Industrialized Societies," Alphen aan den Rijn, Netherlands: Sijthoff and Noordhoff, 1978.

[2] Johnson, D. Gale: "World Agriculture in Disarray," London: McMillan and Fontana, 1973.

The size of the FOR and government owned grain stocks is large enough to accommodate one or more poor world grain crops while preventing prices from escalating sharply. There are well-established rules for when this grain becomes available to the market.

Finally, expanded livestock production provides a basis for improving food security. Cropland can be converted to forage production to support larger beef production. This approach would be especially helpful in reducing rice production and eliminating the costly rice surplus without jeopardizing Japan's long-term ability to produce rice if it was needed. In times of food shortages, livestock can be slaughtered, and the grains used to feed them can be used for direct human consumption. Also, land can be converted back from forage to crop production.

C. Agricultural productivity

Productivity in Japanese agriculture is low primarily because farm units are very small. Low productivity is costly to Japan in a number of ways. It results in high food prices in order to protect producers' incomes. It also means slow income growth from farming in the rural sector and, therefore, retards the rate of growth in domestic consumption of manufactured goods and services.

While further research can help increase yield and productivity, the long-term solution lies in restructuring agriculture to make it more efficient and competitive by international standards. This can be done in a number of ways.

One way is to allow the size of the farm to increase through purchase or leasing of land in order to make farming a full-time occupation and source of earnings. As Hayami points out,[3] farm size has changed little during the last 20 years. During this period agriculture's share of the total labor force declined from 27 to 11 percent. There was only a 20 percent decline in the number of farm households. At the historic rate of increase in average farm size, it would take 90 years to double the average size from its current level of 1.1 hectares or 2.7 acres.

There has been a trend toward part-time farming, especially in rice, with farm income being supplemented by non-farm employment. There is a strong attachment to the land, reinforced by land tenure policies which make it difficult to separate ownership and cultivation rights. Land rents are controlled at an extremely low level, making it unattractive for owners to lease out land.

The fundamental approach to restructuring Japanese agriculture and to allow farm size to grow is to establish a viable market in land and to promote leasing of land. This can be done in a way that protects the rights of both owners and tenants. In this way, farm productivity could be increased substantially, and land could be shifted away from the costly production of rice to the production of high value items such as beef, fruits, and vegetables.

Improved agricultural productivity or efficiency would benefit Japan's economy in several ways:

Food prices would be lowered, consumers would be better off, and there would be less upward pressure on wage rates;

Producers would be less tied to their land and have more mobility to enter the industrial labor force, thereby increasing the supply of labor to industry; and

Government expenditures on agricultural subsidies could be reduced, leaving more money to finance other expenditures such as housing which is in short supply.

D. Farm income and rural welfare

Restructuring agriculture, improving its productivity, and liberalizing agricultural imports can be done without sacrificing farm income levels and rural welfare. This proposition is discussed below in more detail in the context of specific agricultural trade issues. At this point we sketch the broad outlines of how farm income can be protected.

Improving agricultural productivity would result in the same level of income per farm relative to incomes in the non-farm sector with lower food prices. It is true that there would continue to be an exodus of workers from agriculture into industry and services, but these displaced workers would earn the income levels prevailing in the non-farm sector.

Second, the government of Japan could switch some of its subsidies from supporting high food prices to making income payments to farmers. Income guarantees provided in this form would protect farm income and further facilitate a lowering of food costs.

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[3] Hayami, Yujiro "Agricultural Problems in Japan's External Economic Coordination," processed, undated.

Lower food costs through improved agricultural productivity and the use of income payments would lead to expanded consumption and the need for larger food imports. Thus agricultural trade would be expanded.

In a very real sense, Japan's farmers have a more important stake in the welfare of Japan's nonfarm economy than in the farm economy. As shown in the table below, nonagricultural income of farm households in 1978 accounted for 76 percent of their total income, and the share is even higher for part-time farmers. In 1960, about 50 percent of farm household income came from nonagricultural sources. Thus, rural welfare has become increasingly dependent on off-farm earnings.

Furthermore, per capita earnings of farm households are now greater than for urban households—15 percent greater in 1978. This represents a drastic improvement over 1960 when per capita income of farm households was less than 70 percent of urban households.

If agricultural trade issues were to get out of hand and contribute to restrictions on industrial export potential, Japan's rural sector could suffer. Poor export performance would depress industrial growth and employment, which in turn could limit nonfarm earnings of farm households.

INCOME LEVELS OF FARM AND URBAN WAGE-EARNER HOUSEHOLDS

[In 1,000 yen]

	Farm households				Urban households per capita	Ratio of per capita farm-urban income
	Per household			Per capita		
	Agricultural income	Non-agricultural income [1]	Total			
1960	225	224	449	78	115	0.68
1965	365	470	835	157	194	.81
1970	508	1,084	1,592	326	358	.91
1975	1,146	2,815	3,961	867	760	1.14
1978	1,197	3,823	5,020	1,113	969	1.15

[1] Nonagricultural income for farm households includes money earned by family members as seasonal laborers.

IV. AGRICULTURAL TRADE ISSUES

A. Commodities

Agricultural trade discussions between the U.S. and Japan have focused on approximately 22 categories of food and agricultural products[4] that are subject to import quotas illegal (not sanctioned) under the GATT. The U.S. is interested in elimination or substantial liberalization of them, although the U.S. considers trade liberalization of some of these items to be more important than for others.

The categories of food and agricultural products subject to import quotas not exempted from GATT obligations are as follows:

Meat and offals of bovine animals, fresh, chilled or frozen, excluding tongue and internal organs; Milk and cream, fresh; Milk and cream, processed; Processed cheese; Small red beans, broad beans, and peas (excluding seeds of the latter two types); Oranges and tangerines, fresh; Oranges and tangerines, preserved by gas.

Flour of wheat, rice, and barley; Groats and meal of wheat, rice, and barley; Starch and inulin; Edible peanuts; Edible seaweed and tubers of devil's tongue; Processed bovine meat and pork; Grape sugar, milk sugar, sugar syrup (excluding maple syrup), caramel, artificial honey, etc.; Fruit puree and fruit pastes.

Canned pineapple and fruit pulp (excluding apricot pulp or nuts); Tomato juice and fruit juices (excluding lemon and lime juices and sloe bases); Tomato ketchup and sauce; Food preparations containing added sugar (excluding rations, peanut butter, sweet corn, and Korean ginseng tea); ice cream powder; infant milk powder; food containing seaweed, rice, wheat, and barley.

The U.S. does not have a major trade interest in all these commodities. For some, other countries are lower cost producers or heavily subsidize exports. For example, New Zealand, Australia and the EEC are the major suppliers of Japan's dairy product import requirements. But there are a large number of food and agricultural items for which the U.S. is a low cost producer and can compete effectively in export markets. These include: Beef; Citrus; Prepared fruit and vegetable products; Peanuts; and Dry beans and peas.

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[4] The number of products varies with how they are grouped.

There are also impediments to the imports of certain grains. The imports of wheat are a monopoly of the Food Agency, and the imports of corn used for starch are limited by quotas to protect domestic starch production based on potatoes.

Since the specific commodity trade issues are being discussed officially by the U.S. and Japan, it may not be prudent for the Advisory Council on Japan–U.S. Economic Relations to focus on them at this time. However, there are two commodity areas—beef and citrus—which are of special interest because they relate directly to issues of restructuring and improving productivity of Japan's agriculture. These commodities are considered in this paper as specific examples of how Japan's agricultural policies might be changed to liberalize trade while at the same time protecting the interests of producers and consumers.

B. Trade practices

There are several aspects of the food distribution system in Japan that can limit imports, most notably the licensing and tendering practices for a number of agricultural items. Many agricultural items subject to import quotas can be handled only by firms which have received a license to do so. This practice creates substantial monopoly power for those who have the licenses and inhibits improving efficiency of the distribution system.

Another aspect of inefficiency in distribution is the practice of having imported commodities pass through numerous hands under a variety of tendering or resale procedures. Some commodities are actually bought and sold more frequently than the actual number of physical transactions, and this unduly raises distribution costs and the cost of food to consumers.

These practices are especially important for beef, but are used also in varying degrees for other agricultural commodities subject to import quotas.

The U.S. Task Force suggests that these trade practices be studied. Improved efficiency in the distribution system would certainly help improve the outlook for agricultural imports and make it less cumbersome for exporters to sell to Japan.

V. APPROACHES TO TRADE LIBERALIZATION

In this section we use two agricultural commodities—beef and citrus—to illustrate how trade liberalization can be accomplished to the benefit of Japan and the United States. We also discuss how such liberalization could also help reduce the cost of Japan's rice policy.

A. Beef

Japan has extremely high beef prices and very low per capita consumption levels in relation to consumer income. The price of beef in Japan is about four times higher than in the U.S. This price is maintained through the use of very restrictive import quotas.

As part of the multilateral trade negotiations, the beef import quota is being increased from 100,000 tons in 1978 to 135,000 tons by 1983 with the quota for high quality beef supplied mostly by the U.S. going from 16,800 tons to 30,800 tons over the same time period.

Hayami[5] and Sanderson[6] have shown that beef imports can be increased substantially with consumers and the government benefiting and with no harm to producers.

The basic idea contained in these proposals is to: Remove the quota and allow beef prices to fall; The decline in beef prices would be cushioned by an import duty and possibly a special levy; Beef consumption and imports would increase substantially; and The revenue from the import duty and levy, together possibly with some government payments, would be used to protect incomes of beef producers.

Sanderson points out that following this approach and using a 25 percent duty plus a special levy of 50 percent to finance the entire cost of deficiency payments, "Japanese beef prices would still fall by 28 percent, consumption would go up by 43 percent, and imports would increase by 150 percent. Even better results could be achieved if the Japanese government would be prepared to finance about one-third of the cost of the deficiency payments. In that case, the special levy would have to be only 25 percent; prices would drop by 40 percent; consumption would rise by 60 percent; and imports would triple; the cost to the Japanese treasury would be about 95 billion yen ($420 million). The increase in the value of imports would be $650 million under the first proposal and about $900 million under the second variant. The U.S. share in these imports is difficult to predict but it would probably be at least one-half, in terms of value." Because the price of beef in Japan is so high relative to the world price, substantial domestic price declines can be achieved even with high duties and special levies.

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[5] Hayami, Yujiro, "Trade Benefits to All: A Design of the Beef Import Liberalization in Japan," American Journal of Agricultural Economics, vol. 61, No. 2, May 1979.

[6] Sanderson, Fred H., "Irritants in U.S.-Japanese Agricultural Relations: Can Food Fill the Gap?", paper presented to the Japan Society, New York City, April 2, 1982.

Beef consumption will continue to grow over time as consumer incomes rise. There are also opportunities for Japan to expand beef production. One constraint to doing so is the lack of forage supplies. But this could be remedied by switching land from (say) rice production to intensive forage production.

Japan has a chronic surplus of rice which is very costly to the government since rice prices are supported at about 4–5 times the world price. The high cost of the rice support program has been an embarrassment to the government. A program of structural reform which discouraged rice production and encouraged intensive forage production would stimulate domestic beef production in Japan. Since beef producers' incomes would be protected under the scheme proposed above, this would be a profitable use of these land resources.

As already discussed, a shift of land out of rice into forage and beef production could also be a component of Japan's food security policy. In the event of food shortages, beef herds could be produced and forage land could revert back to rice production.

B. Oranges

Japan is a relatively efficient producer of oranges. However, it expanded production of mikan oranges earlier and now has a surplus.

There are three markets for oranges in Japan: The in-season fresh fruit market; The off-season fresh fruit market; and orange juice.

During the in-season, there is a 40 percent tariff on imported oranges and imports are limited to less than 1 percent of production. These import restrictions are mostly redundant since domestic orange prices are low during the in-season and substantial imports are unlikely in this period.

In the off-season the import duty is reduced to 20 percent, and there are import quotas in the June-August period. These restrictions are totally unnecessary since there is no domestic production to protect in the off-season.

There is a vast potential market for citrus juices in Japan. The market is highly protected by a 30 percent tariff, tight import quotas, and a requirement that imported juice must be blended with at least 40 percent of domestically produced juice. Reducing tariffs and eliminating quotas on imported orange juice would greatly expand consumption. It would also allow Japan to solve its surplus mikan problem by diverting more of these oranges to juice production.

Sanderson estimates that "If Japanese total per capita citrus consumption should approach the U.S. level as a result of liberalization, there should be room for 2½ million tons of orange juice, in terms of fresh fruit equivalent—4 times the present usage. If half of that is imported, it would be worth about $350–$400 million. The United States would not be the only supplier, however: Brazil is a highly successful, low-priced competitor that already accounts for over half of Japan's imports."

C. Overall agricultural trade

We discussed above the implications of trade liberalization for two agricultural commodities—beef and oranges. The gains in U.S. exports could be $600–$700 million for these two commodities or about 4 percent of the current $16 billion dollar trade deficit the U.S. has with Japan.

We have not discussed here the potential gains in U.S. trade from liberalizing imports of other protected agricultural items or the benefits to Japan's consumers and its overall economy. This work should be done as part of the study being conducted by the Advisory Council on Japan-U.S. Economic Relations. When it is completed it would undoubtedly show that the gains in U.S. agricultural exports from trade liberalization by Japan will represent a sizable part of the current bilateral trade deficit.

The U.S. is holding regular official consultations with Japan on agricultural trade issues. Some progress on trade liberalization may be made over the next 6–9 months. The Advisory Council should follow these discussions but not let them become an excuse for not proceeding with its own work. Any progress made through U.S.-Japan consultations should be noted and incorporated in the Advisory Council's own work in agriculture.

[ATTACHMENT C]

TASK FORCE CONCERNING JAPANESE-AMERICAN TRADE EXPANSION IN SELECTED SERVICE INDUSTRIES: BARRIERS TO JAPAN-UNITED STATES TRADE IN SERVICES

Categories: Barriers	M/N/R [1]	Source of information
Accounting (discussions underway with institute on two applications): Japanese Institute of CPA's resistance and MOF delay in approving formation of audit corporation by large international firms.	N	Yamakawa letter II.
Air/shipping (Record of consultation signed ad referendum, in June resolving certain bilateral air transport issues; it now awaits implementation by diplomatic note):		
Prohibition on use of Non-international Standards Organization (ISO) containers, i.e. hi-cube containers.	R	DOC Feb. 25, 1982, paper; USTR July 20, 1981, printout. Hayashi letter; McGee letter; ACCJ survey.
Prohibition on entering affiliated domestic transport sevice industry..	N	McGee letter; ACCJ survey; Hayashi letter.
JTS refusal to use other than Japanese carriers for tobacco shipments.	R	McGee letter; USTR Mar. 4, 1982, memo; ACCJ Survey.
Burdensome customs regulations for turnaround (cabotage) of containers.	R?	McGee letter; ACCJ survey; Hayashi letter.
More burdensome customs regulations on nonpure car carriers than on pure car carriers.	R	McGee letter.
Denial of Osaka/Guam route to Continental	N	Air source 1; ACCJ survey.
Restriction on Continental to narrow-bodied planes	N	Air source 1; ACCJ survey.
Restriction on freedom to choose and move cargo between Narita and Baraki for customs clearance.	R	Air source 2.
Burdensome procedures for delivering airborne containers to Japanese shippers/consignees.	R	Air source 2.
Restricted hours for quarantine and food inspectors at airports	R	Air source 2.
Duties charges on CIF instead of FOB price	R	Air source 2.
JAL marketing practises which give it unfair advantage over foreign carriers with domestic shippers and passengers	N	USTR July 20, 1981, printout.
GOJ subsidy to JAL	N	USTR July 20, 1981, printout.
JAL monopoly on some ground handling services	N	USTR July 20, 1981, printout.
Preferred treatment to JAL in airport facilities and services	N	USTR July 20, 1981, printout.
Refusal to allow new UAL service to Japan (Nagoya and Hokkaido?).	N	DOC Feb. 25, 1982, paper; ACCJ survey.
Refusal to grant duty-free import of ground handling equipment	N	DOC Feb. 25, 1982, paper.
Commercial banking (New law allowing foreign acquisition of Japanese banks):		
Minimum size of CD's too high at Y 500MM	R	Mechem letter.
BOJ restrictions on bank's foreign currency dealings, funding, and balances.	R	ACCJ survey Mar. 8, 1982.
BOJ limits on CD issuance based on size of foreign bank branch's loan portfolio in Japan, not equity base.	N	ACCJ survey Mar. 8, 1982; ACCJ comments, June 1982.
BOJ rediscount facility favors domestic banks	N	ACCJ survey Mar. 8, 1982.
Data Processing (New telecommunications bill due in spring):		
Restrictions on use of leased lines (value-added networks)	R	USTR Mar. 4, 1982, memo; Gregg letter; ACCJ survey.
GOJ subsidy to NTT	N	USTR Mar. 4, 1982, memo; Gregg letter.
Restrictions on use of international data communications lines for dp services.	R	DOC Feb. 25, 1982, paper; USTR Mar. 4, 1982, memo.
Insurance:		
MOF slow process for licensing foreign firms, paticularly life insurance companies. For such operations, MOF insistence that business be conducted through heavily capitalized subsidiaries in Japan rather than branches.	R	USTR Mar. 4, 1982, memo; Amembassy Tokyo report; Cox letter.
Even when basic license is secured by foreign firm or its subsidiary in the case of life insurance, considerable delays are encountered in receiving authorization to market additional products within the same general line of business.	R	Cox letter.
MOF refusal to allow price competition on new products and reluctance to allow innovation in policy terms and conditions unless all companies develop these jointly for introduction in the market at the same time.	R	USTR Mar. 4, 1982, memo; Amembassy Tokyo report; Cox letter.
GOJ practice to award all insurance contracts to Japanese firms	N	USTR July 20, 1981, printout; Cox letter.

TASK FORCE CONCERNING JAPANESE-AMERICAN TRADE EXPANSION IN SELECTED SERVICE INDUSTRIES: BARRIERS TO JAPAN-UNITED STATES TRADE IN SERVICES—Continued

Categories: Barriers	M/N/R [1]	Source of information
Investment banking (TSE commission rebates payable to foreign nonmembers to be equalized in October): Restriction in number of TSE seats	R	DOC Feb. 25, 1982, paper; Janiak letter.
Legal:		
JFBA resistance to permitting foreign lawyers independently to practise any legal services, even those relating to the laws of the country in which they are qualified to practise.	N	Legal source 1; DOC Feb. 25, 1982, paper; USTR July 20, 1981 printout; ACCJ comments June 1982; foreign lawyers memo.
Min. Justice freeze on visas for attorneys (this enforces above item).	M	Visa preamble.

[1] M = Most favored nation issue, involving direct discrimination against U.S. firm vis a vis other foreign firms.
N = National treatment issue, involving direct discrimination against foreign firms.
R = Reciprocity issue which puts U.S. in a disadvantageous position because of seemingly arbitrary difference between characteristics of Japanese and U.S. domestic market.

The CHAIRMAN. Thank you very much. I would just like to comment on one or two things that you mentioned, Mr. Beré. Certainly we will raise these issues with Kenneth Dam when he comes up for his confirmation hearing as Deputy Secretary of State this week and Allen Wallis, nominated as Under Secretary for Economic Affairs. These matters are of utmost importance to us and must be dealt with at the highest levels. That is why this committee is holding these hearings.

Second, I will direct staff today to contact GAO to see about which agency of Government would be best to make the yen-dollar relationship study. We will make that study. There is no problem about getting it underway. It is a good idea.

Senator Helms, each of us has made a few introductory comments. I wonder if you would care, before Mr. Delano testifies, to make any introductory comments.

Senator HELMS. Mr. Chairman, I appreciate that very much.

Mr. Chairman, I wish to commend you for calling this hearing. As you well know, Japan is one of our Nation's largest trading partners and is the largest single market for U.S. agricultural exports. For fiscal year 1981, U.S. agricultural exports to Japan were $6.7 billion. For the first 10 months of fiscal 1982, the value of U.S. agricultural exports was $4.95 billion, a very sizable sum, but 15 percent below the level of U.S. exports for the corresponding period of 1981.

Japan is a market for nearly every agricultural commodity or product that the United States exports. Japan is our largest market for raw agricultural exports as well as processed agricultural products. However, even though Japan is the Nation's largest foreign agricultural market, it maintains a very extensive system of duties, quotas, and tariff quotas on both raw and processed agricultural products.

Japan is the world's largest single agricultural importer because it simply cannot produce enough food to meet domestic requirements, even at the following price-support levels.

Support prices, 1981 average

Wheat (per bushel)	$22.00
Barley (per bushel)	18.00
Soybeans (per bushel)	35.00
Flue-cured tobacco (per pound)	3.53
Milk (per hundredweight)	20.00

The fact is, these very large price support levels would not be feasible if the Japanese Government did not maintain their strict import controls in terms of high duties, quotas, and import licensing.

I'm hopeful Mr. Chairman, that the upcoming bilaterals with Japan in October will result in substantial tariff and quota reductions by the Japanese. The market for electronic equipment, automobiles, and the many other items that Japan exports to the United States is relatively free. Japan must realize that trade access is a two-way street.

I have a meeting of the Agriculture Committee in progress right now, and I also have to go to a meeting of the leadership, so I cannot stay. I wish I could, Mr. Delano.

I was looking here at some figures that I compiled some time back with respect to what this country has done for other countries around the world. As you look at these figures you will understand the growing cynicism among the American people, particularly the American farmers, at the way they feel they are being treated, and I agree with them.

Incidentally, Mr. Beré, your statement was very good. When I get all of it, I will read it. I just note, for example, that over and beyond the cost in terms of lives and dollars—millions upon millions of dollars—growing out of the war, the U.S. Government has given Japan $3,950,707,000 in foreign aid.

Now, you had better believe that the farmer out there across America understands that when he sees what is happening to him in terms of trade relations. He is understandably bitter.

Now, you recently led, Mr. Delano, did you not, a delegation of farm leaders to Japan?

[Mr. Delano nods affirmatively.]

Senator HELMS. I know that you are going to give an assessment of the potential for significant movement on the part of the Japanese in reducing protectionism of the agricultural sector. So I will not ask you to comment on that.

Mr. Chairman, I will read the transcript with great interest.

The CHAIRMAN. If you have to leave, Senator Helms, I will be putting a question to Mr. Delano later on what Japan can do to create a Public Law 480 program. I think you signed together with me the letter I sent a few years ago to Prime Minister Ohira mentioning that they ought to do more for defense, more for humanitarian assistance and development assistance for developing countries. That load cannot be borne entirely by us. The second most powerful economic nation on Earth must bear a fair share.

So I will put those questions. But I would like your report to us later, Mr. Delano, on what progress is being made by Japan to purchase U.S. agricultural products for distribution abroad, taking into account the humanitarian needs of the world, the huge bilateral trade surpluses, and the excess agricultural product we have in this country that could easily be available for yen purchase.

That is an introduction for you to start your testimony, then.

Senator **Helms**. If you would let me just continue for one moment, Mr. Chairman.

The **Chairman**. Of course.

Senator **Helms**. Zen-Chu, is that the equivalent of the Farm Bureau in Japan?

Mr. **Delano**. You might say so. It is an umbrella of farm organizations, yes, sir.

Senator **Helms**. Are you going to discuss that group in your testimony this morning?

Mr. **Delano**. Well, I refer to Zen-Oi because of the fact that this cooperative group is building an elevator in New Orleans on the Mississippi.

Senator **Helms**. Well, in addition to that they do a good deal of lobbying. I expect representatives of Zen Chu are present in this room this morning. I would be surprised if they are not. I know, or at least I have been given to understand, that representatives of this organization are in Washington right now, plying their trade.

Now, there is nothing wrong with that, but I hope that while they consult with Senators that Senators will immediately say this is a two-way street.

Now, there was a candidate in 1980 who did not get very far, but he talked about people sitting on the docks in Tokyo in their Toyotas, listening to their Sony's. Somewhere along the line, Mr. Chairman, we have to get hard-nosed about the American businessman and businesses, and the farmer.

I will file some questions with each of you. But I would like to go into the influences that Zen-Chu has had in determining the trade policy in terms of agriculture between Japan and the United States. So I will file those questions in writing.

Mr. Chairman, I thank you.

The **Chairman**. Thank you very much indeed, Senator Helms.

Mr. Delano.

STATEMENT OF ROBERT B. DELANO, PRESIDENT, AMERICAN FARM BUREAU FEDERATION, PARK RIDGE, ILL.

Mr. **Delano**. Thank you, Mr. Chairman and distinguished members of the committee. I am Bob Delano, president of the American Farm Bureau, which is the largest general farm organization, not only here in the United States but in the world.

I might comment first on my appreciation of the fact of representing American agriculture at this committee meeting, and also to comment to Senator Glenn and Senator Tsongas that certainly we are interested in research and education. We want to continue that.

One of the reasons for agriculture in the United States being as strong as it is today is because of research and education, and the thrust toward that. But the problem with agriculture is not efficiency or production, because we are the most efficient producers of agricultural products in the world.

The main problem we have with Japan is access. Of the 27 quota items with the Japanese Government, 22 of those items are agricultural items. It is pure protectionism on the part of the Government of Japan. We are efficient and we are looking for access to these markets.

It is very difficult for the American farmer and rancher to sit there and see unlimited access of industrial products, of electronic products, et cetera, into this market, and yet are denied access to the Japanese market.

Not only do they have direct access in the industrial sector, but they also have direct access and full access in the investment sector. We find in agriculture alone, where they have bought elevators, they are building a new elevator, as Senator Helms commented. Zen-Oi, that cooperative group, is building a large elevator on the Mississippi River in Louisiana.

Yet we are denied those opportunities for investment in Japan. And we see even in the feed compounding industry in Japan, where they operate what I would call an old boy network, in that if we were given the opportunity to go in as private trade people, we the people in agribusiness in the United States, to go in and operate a feed compounding mill, we could take our feed grains that are being imported there and we could compound those feeds and provide them to the Japanese farmer at a lesser rate.

Of course, as you know, the problems in Japan relative to access of agricultural products relates to a political question. After World War II, when it was redistricted, 60 percent of the political power was designated to the rural areas where the farmers lived. So it becomes a difficult political question, and it is a highly emotional issue in Japan, the relaxation of restrictions, particularly on beef and citrus.

When I was in Japan in April and also in August, I saw posters all over the countryside saying, no more citrus or no more beef into Japan. It depicts the President as Superman flying in with the beef products and citrus products and grain products and someone from Japan holding Superman away, protecting Japanese agriculture.

These are some of the problems that we are faced with from the standpoint of this country.

Senator Helms mentioned Zen-Oi coming over. I see nothing wrong with private peoples from other countries of the world coming over and visiting with our members of Congress, because we did that ourselves when we went over to Japan in April. We took 25 farmers and ranchers and we paid courtesy visits to agriculture, but our thrust was to the industrial sector and the political sector, to indicate to them that unless we are given access to Japan for our agricultural products and in the investment field and in the service field, there is a danger of protectionist legislation in this country that would deny them access.

They understand it as being a political question in Japan, but they are reluctant to take the necessary steps to cause it to happen. Certainly, I think one of the major solutions to the problem that we face relative to the agriculture—and I think it would apply in the industrial and investment sector—is that we must get tough. I have a feeling at times that they think we are patsies. Not only do the Japanese, but the people in the European Community also think this.

So if I were to indicate one thing that I think we can improve on, it is that somewhere, whether it comes from Congress or whether it comes from the administration itself, we must indicate that steps must be taken to remove the restrictions made over a period of time, not overnight, but set a goal in the future and say, by 1985 or 1990 we will have complete free trade relative to the agricultural products, the investment sector, and also in the service sector, and in the interim period begin to relax the import quotas that they have against us and against other countries of the world relative to access to the Japanese market.

There are internal problems in Japan, as I see it, from an agricultural standpoint or from a whole policy standpoint, in that they have too many people in agriculture, their retirement age is too low. They are retiring people early and this causes them to come back into agriculture. And they have around 10 percent of their people involved in agriculture, a major portion of that being female, versus our less than 3 percent of people involved in agriculture. Quite often people retire and go back into agriculture.

We see an efficient agriculture, but we see internal policies that cause overproduction in certain areas.

So in conclusion, Mr. Chairman—and I will make this brief, because I have submitted a statement—we see that one of the greatest things that you could do as Members of Congress and Congress as a whole is to send a clear message to the Japanese Government with the support of the administration. Adopt some policies that would indicate to the Japanese that it is very difficult for us to see how we can continue to offer free access or free trade to the Japanese with the United States and yet they deny access to the industrial products, agricultural products, and to the investment area and services area into Japan.

[Mr. Delano's prepared statement follows:]

PREPARED STATEMENT OF ROBERT B. DELANO

Mr. Chairman, I am Robert B. Delano, President of the American Farm Bureau Federation. The American Farm Bureau Federation is a general farm organization made up of more than 3 million member families. I am also a farmer. I grow soybeans, corn, and wheat on my farm in Virginia.

In April of this year I led a delegation of 24 State Farm Bureau Presidents to Japan to express the concern of American farmers and ranchers over the Japanese quotas and tariffs which limit the access of 22 different agricultural commodities and products into the Japanese market. This effort on our part was to give the strongest support possible to Ambassador William E. Brock and his colleagues who have the most difficult task of conducting trade negotiations in order to gain better access to the Japanese market for American farmers and ranchers.

While in Japan we pointed out to the various trade interest groups and to members of the Japanese Diet that although we appreciate Japan as our number one foreign customer of American farm products, there is a growing concern over the trade problems between our two countries. These trade issues, if not resolved fairly quickly, will, we believe, result in actions which could be harmful not only to those in Japan who are interested in freer trade but also to the American farmer who is so dependent upon export markets for his livelihood.

We provide almost all of the soybeans that the Japanese use and more than half of their wheat and feed grains. However, for value-added products and those commodities which can be produced in Japan we find that the Japanese have erected trade restrictions against their importation. These restrictions are expressed in terms of quotas, tariffs and health and sanitation requirements designed to exclude or severely limit importation. They have indeed effectively restricted entry of job producing value-added products and farm commodities which are competitive with domestic Japanese production.

While in Japan in April and on a subsequent trip that I made last month, I pointed out to the Japanese that members of Congress are discussing their import quotas, their tariffs, and their arbitrary standards and unreasonable pricing policies relating to agricultural imports. I further pointed out that their trade restrictions are considered to be unfair because our markets are open to the Japanese both ways—to buy from us and to sell to us—while their markets are closed or restricted to us for a number of commodities. My colleagues and I spoke to the Japanese about the pressures that are buiding in our country to limit the sale of their automobiles, their motorcycles, their radios and their television sets—just as they have restricted what we are allowed to sell to them.

We spoke to the Japanese about the U.S. trade deficit with Japan and that the $18 billion deficit of last year could reach $20 billion this year and that some economists forecast a trade deficit of $25 billion annually in the near future.

These deficits and these limits on access to the Japanese market are occurring when the economy of the United States is in deep recession. Furthermore, the Japanese not only have these restrictions on trade but also, as this Committee knows, they have restrictions on American services and American investments in the Japanese economy. We pointed out while in Japan that Japanese firms trading in agricultural commodities are free to invest here, are free to trade in American commodities and are making investments in grain elevators and other facilities to enhance their export business from the United States. The same privileges are not accorded to American investors who could serve a useful purpose in the Japanese market by presenting a challenge to the "old boy" system which restricts competition that results in lower imports of U.S. commodities such as feed grains and higher prices to the Japanese farmer who uses compounded feed made from the imported grain.

The American Farm Bureau Federation firmly believes in allowing the free market to operate. We have vigorously supported legislation in the interest of freer trade. For example, last year Farm Bureau opposed a bill placed before Congress by Senator Danforth which would have placed mandatory quotas on Japanese cars and trucks entering the United States. However, we support his reciprocal trade and investment bill (S. 2094) which we believe will promote U.S. exports. Today there is before the Congress, as everyone here knows, domestic content legislation which if implemented would severely limit access to this market for Japanese automobiles. I understand that this legislation has 222 cosponsors in the House of Representatives. Because of the intransigence of the Japanese on trade liberalization, the American Farm Bureau Federation finds it more difficult than ever before to oppose this legislation even though it is outright protectionist in nature. American farmers and ranchers are becoming dissatisfied with the lack of progress in the liberalization of Japan's import quotas on agricultural products. Some Michigan farmers, for example, are wondering whether they might not be able to sell more beef and more fruits and vegetables to workers in their state who regain their jobs in the automobile industry than they can to Japan. We hope that Japan will see the necessity of trade liberalization for agricultural products into their market to prevent enactment of such protectionist legislation. We hope they see this before it is too late.

We know that having full access to American products is important to all Japanese citizens for many reasons—including the availability of high quality food at lower prices. American markets are also important to Japanese farmers who, because of limited natural resources, cannot produce adequate supplies of many commodities such as soybeans; and who must earn about three-quarters of their income away from home—often working in factories that make products which are sold in the United States market.

We understand that open markets can improve the Japanese standard of living by as much as 30 percent.

Compared to Americans, people in Japan now spend about one-third more of their disposable income for food. Full market access could save each Japanese family one-fourth of their monthly food budget.

Japanese citizens need additional protein sources. The fish catch is declining and will decline more rapidly in future years. Japanese consumers want more good meat and meat products—at affordable prices.

A pound of beef steak that sells for about $4 in California, and only $4.50 in Hong Kong, costs $15 or more in Tokyo. In a free Japanese market that same steak should sell for about the same price as it does in Hong Kong.

Japanese people eat only about 5 kilos of beef each year compared to about 47 kilos of beef eaten by each American every year.

We know there is a great demand in Japan for more red meats. We see Japanese visitors to the United States carry back arm loads of meat in special gift packages from U.S. airports.

We were told by the American restaurant owners in Japan that they could use many times more American beef than they are able to obtain under the Japanese quota system.

We know that the Japanese people enjoy fresh fruits. We saw melons selling in Tokyo from $6 to $20 each. Apples, pears and persimmons each sell for about a dollar. A simple item such as a cherry pie has a Tokyo price of $12. Such prices are neither necessary nor desirable.

We have difficulty understanding why Japanese duties on U.S. citrus range from 20 to 40 percent of its value. This is in addition to quantitative restrictions. Japanese quotas allow only 4½ million cartons of fresh oranges to sell each year—yet we know there is demand for far greater amounts. Only about 100 Japanese companies are now licensed to receive fresh oranges. Because supplies are kept low while demand remains high, Japanese profit margins are excessive—with 250 percent profit on a carton not uncommon.

As a result, Japanese consumers must pay nearly three times as much as they should pay for fresh oranges—and Japanese per capita consumption of fresh oranges is about one-tenth of that in nearby Okinawa where prices are not kept artificially high.

Just as Japanese automobile manufacturers produce a quality product competitively priced, the American farmer and rancher produces a top quality product competitively priced. Freer trade would benefit both countries. We asked the various groups in Japan—consumers, laboring people, manufacturers and even Japanese farmers who could enjoy lower feed cost if American investment were allowed in that country—to help us liberalize these Japanese trade restrictions. We will continue our efforts in this country toward freer trade, including Japanese products, which are desired by the American consumers because of their quality and price competitiveness. We have told the Japanese in our visits there that everyone is hurt by such things as a duty that doubles the price of corn or triples the price of an orange or a pound of beef or pushes the price of American cigarettes 50 percent higher than domestic brands.

Our farmers and ranchers see showrooms filled with Japanese products in every city and village—such things as computers, toys, clothing, jewelry, dishes and electronic devices of every kind.

We use Japanese cars and trucks on our farms. We use Japanese "CB" radios in our daily business. Farmers are buying Japanese video recording and playback entertainment centers. We use Japanese cameras and often take our pictures on Japanese-made "Fuji" film.

American agriculture is highly efficient. We invite Japan to benefit more from our efficiency as we benefit from theirs. The Japanese Diet should ignore the scare tactics of the protectionist groups in Japan who are peddling the line that America cannot be relied on as a future supplier of their food needs because of the exhaustion of our soils, water and other natural resources. This is simply not true.

The Japanese Government should develop trade policy on the advice of the "Wisemen" of the Japan/U.S. Economic Relations Council who have called for a stop to dangerous protectionism in both countries. These Wisemen recommended elimination of trade quotas. They said that agricultural trade between us should be liberalized, and that foreign investment should be encouraged. American farmers also join the Japanese Wisemen Group in their concern.

Mr. Chairman, as our group of Farm Bureau State Presidents departed from Japan last spring, Japanese special interests were demonstrating against American beef and citrus imports. These interests are well organized. They have been effective in their influence with the Japanese Diet. Our trade negotiators, in spite of their diligent efforts, have obtained no concession of consequence for agriculture from the Japanese since the conclusion of the Geneva trade talks. This reluctance on the part of the Japanese Government to face reality can only result in protectionist legislation such as that proposed in the domestic content bill, which would be hurtful to the trade between the United States and Japan.

There are some groups in Japan that realize the seriousness of the situation. I have already mentioned the Wisemen Group; also, as we departed Tokyo, the Keidanren, which is roughly the Japanese equivalent of the U.S. Chamber of Commerce, came out in the Japanese press in support of trade liberalization. Consequently, it is hoped that the Japanese Government will see the necessity of trade liberalization; but the time is obviously becoming shorter for them to make their move.

The **Chairman**. Thank you very much indeed.

Let me just begin with agriculture. We will proceed on the 10-minute rule for questioning.

Japan is our largest agricultural customer by about $6 billion total. But the potential has always seemed to me to be much larger than that. One could argue that increased consumption of American farm products is in their own self-interest. As a politician, I look at the 10 percent of the population engaged in agriculture and the disproportionate political clout they have with the ruling Liberal Democratic Party.

As a result of protectionist agricultural policies at home, I wonder if the Japanese people realize that they pay 70 percent more for their food than do New Yorkers. Now, if there were a freer market, as Japan has relatively free access to our market, and if there were not this political problem, 90 percent of the people would not be paying through the nose high prices because of that protectionist policy imposed by 10 percent of the population. What would be the potential sales? Could we bring down this $20 billion trade surplus that Japan has by selling agricultural products that we may have in our storerooms and are now paying rent on?

Mr. **Delano**. Senator, I do not have the figures for the potential of the United States. But Senator Hayakawa, I do have them for California. When we came back from Japan in April, the question was asked, how much could we increase our trade dollar volume with Japan if we had free trade? California alone could increase its by $1 billion. But I do not have the figure for the United States, though I am sure those figures are available.

The **Chairman**. And California is second only to Illinois in exports of agricultural products, is it not? So our potential would even be greater in Illinois. [Laughter.]

The potential is huge and it would really help to reduce this problem. And it is a problem to have a $20 billion trade deficit.

Mr. Beré, the task forces of your council include one on agriculture. Are you going to make any recommendations in the Japan-United States Economic Relations Advisory Council on agricultural policy, then, and on what our position should be in the negotiating posture for this country?

Mr. **Beré**. Yes, sir. They are about halfway complete with the task force at this juncture and we will be making recommendations.

The **Chairman**. So you will be making some strong recommendations in this area?

Mr. **Beré**. Yes.

The **Chairman**. I have one last question in agriculture. Has any real movement been shown in taking up suggestions that I have made through the years to every Japanese Government that they do more in the way of providing food assistance for humanitarian purposes around the world? It has been a huge program for us. We intend to keep it up, but we think that Japan has the capability and should have the desire to participate.

They have begun such a program, according to the Japanese embassy, but it still is relatively small. Is there a strong movement in this direction?

Mr. DELANO. Senator, I do not think that it has materialized. It has been discussed and Japan has raised some questions. Certainly we would welcome this to happen.

Let me say one word of caution, in that they do not go into our traditional markets and take some of our markets from us. But to use it in the concept of Public Law 480, we would certainly welcome and support this concept.

The CHAIRMAN. Fine.

Mr. Galvin, you have been closely associated with the defense industries in this country. I would like to ask your judgment as to whether the Japanese have an unfair advantage. When you look at the global problem of security, you have to consider that we provide some $11 billion—as much as the entire Japanese defense budget—for a rapid deployment force to protect Mideastern oil and yet we are the third important customer for Mideastern oil. Proportionately, Japan is the first and heavily relies on it; second, Western Europe; and third, the United States, which is much more independent.

That is just one cost of many costs. Our defense budget is going up to $247 billion—we are at $175 billion now—by 1984. Japan spends something less than 1 percent of its GNP on defense.

What in your judgment is the reaction of the industrial community in the United States to that disproportionate share of the free world defense burden being placed on the United States?

Mr. GALVIN. Well, as your question implies, sir, we look upon that first as a responsibility and a burden of our country that is disproportionately carried. That represents therefore a savings in that society that impacts their tax rates, their basic overhead, the management of their system, and provides a consequential lower-cost way of practicing the commercial aspects of their projecting themselves to the world.

So it is another of the incremental reasons that place the Japanese entity at an advantage costwise to the United States. It has nothing to do with individual performance, but is a structural discontinuity.

The CHAIRMAN. Thank you.

There is a question that I would like to put to both you and Mr. Beré, because both of you have had a life-long association with the automobile industry. Automobiles and steel have been two of the underpinnings of the American economy for many years. They have been depressed and the economy has been adversely affected as a result of it. One depends on the other in a sense.

Yesterday I participated with the chairman and CEO Phil Caldwell in reopening the south Chicago plant of Mercury and Ford. They had been shut down; 3,000 people were laid off for 5 weeks while they changed over their models. I saw the spirit of that group. The UAW was closely working and affiliating itself with management in quality control. In 2 years they have improved quality 48 percent in that one plant.

The spirit and dedication to building the finest car in the world is in that plant. You could just feel it vibrate from those 3,000 people.

To what extent has slippage in quality contributed to some of our problems in the automobile industry? We also had a problem where we subsidized, in a sense, the cost of gasoline and kept it cheaper here than it is anywhere else in the world. In the meantime, Japan made gasoline-efficient automobiles. We regulated the price of gasoline and oil for years here, keeping it unnaturally low, which gave the wrong signal to Detroit, possibly.

What are the problems that you have seen in the automobile industry as they relate to the problem of Japan and the Japanese ascendancy in that field? How do you see the future now?

Mr. Beré, would you start off?

Mr. **Beré**. If I may, I would like to have a historical perspective. I think it is absolutely necessary for us who are in the industry and in our industry to acknowledge that we were insensitive to what was happening 10 to 15 years ago. It is almost appalling to me that some of our major manufacturers did not study what was happening within Japan as late as 1972 and 1973.

Therefore, I think we in management have to accept the fact that we were so enamored with growth, we had such a dominant position, that we were of the belief that an external force was not an issue.

Now let me speak of the present day. I agree with you, what you saw in the reopening of that plant shows there is a revolution going on in our respective plants. There is a togetherness that I have not seen in my business career, where persons of labor and management are working together for the enterprise. To me that is very, very encouraging.

But from a managerial point of view and a leadership point of view, that is a very long and difficult task. One of the things that I hope will happen in our society is that we in management will not become arrogant in this rearranging, that we will find a way so that all of those who contribute to the reemerging of that industry and other industries will participate with the benefits of that process that is going on.

The **Chairman**. Thank you.

Mr. Galvin, do you want to comment on that very basic industry and whether you see a comeback there? Is there enough being done in the industry? The investment that Ford made in that plant is a huge investment, there is no question about it.

Mr. **Galvin**. I join with Jim. I think he has given the collective wisdom on that subject very well.

I would like to add to it a slightly different, but I think significant, dimension. One of the things that is contemporaneously occurring in the automobile industry is a radical change in the technology of the product itself, most particularly electronic control of engines, all manner, carburetion, ignition, et cetera.

The U.S. technologists, to and including our company, have been the leaders in the development of that technology. That technology works around microprocessors. The key microprocessor for automotive electronics is the 6800 design of microprocessor of Motorola. Motorola will serve almost none of the Japanese market with the 6800, because the Japanese have embraced the 6800 and have elected that they shall produce essentially all of the 6800 devices that will go in all the Japanese cars.

Now, it cannot be that we are inadequate for the service of this marketplace. There is a presumption in Japan that they shall supply it themselves essentially 100 percent.

There is a faulty philosophy here somewhere that when the companies that create the technology prove that they are capable of supplying it everywhere else in the world—the United States, at General

Motors, at all the automotive companies in Europe—that for some reason or other we are not privy to being the people that can garner the market for which we have created the technology.

The CHAIRMAN. Thank you very much indeed.

Senator Glenn?

Senator GLENN. Thank you, Mr. Chairman.

My original remarks here today may have been a little bit misinterpreted, judging from what you said, Mr. Galvin. What I was referring to were the longer-term aspects of our competitive position that I think are in danger, things over the next 15 or 20 years, perhaps. The long-term aspects are not good.

I read through your whole statement and did not find such that I disagree with on what we should be doing in this country. I have supported the reciprocity legislation, local content, for what good they may or may not do, the trading company concept, favorable tax provisions for Americans working overseas, a whole host of things that have been through here in the last few years that just nibble around the edge of the whole problem.

I did read very carefully your entire statement and I think it is an excellent statement. I agree that there are short-term things that we can do. There are long-term things that also give me pause about some of the policies that we are pursuing right now with regard to education, with regard to the lack of support for R. & D., and some of the things like that.

Some of the companies represented here today are those that have taken a little longer-term view, perhaps, on research than the average American corporation. The average corporation does not take the longer-term basic research view that is the seminal thing that lets us go on then to some of the other breakthroughs. And I have been concerned about those and that is the reason I addressed those.

It seems to me, however, to get back to the here and now. I have pushed hard to try and get us to do more government monitoring of industries abroad, and have been very unsuccessful in both the last administration and this one. It fell on deaf ears in the Carter administration and it has done the same thing in this administration.

Steel is a good example, the steel situation, where it just seems to me a bit preposterous that every single company, if they have a case that goes before ITC, they have to go abroad, have the money, have the financing, to go abroad, develop their case—very expensive to do that; it takes a big corporation to be able to take that—when we should be monitoring these things to protect whole industries or to monitor what is going on where predatory practices are going to bomb us eventually, and we do not keep up with it.

And if a company is getting in bad shape because of these predatory practices, they do not have the money sometimes to go abroad and be in effect their own mini-State Department, to develop the case that might be brought before the ITC.

You addressed that just a little bit in your report. Would you want to expand on that as to what the Government could do as the representative of American industry? It would require, obviously, an expansion perhaps of some of the embassy activities, consular activities, economic attaché activities.

Would you favor that becoming a policy of the American Government to do that? That is addressed to any witness.

Mr. **Beré.** Senator Glenn, I would agree with you wholeheartedly. I do not know where, but we must have a data base. It should be one that the whole government has access to.

It is incredible, as you have suggested, that when you look for hard information there is such an enormous job in collecting it. I do not have a strong opinion as to where it should be, other than that I think it has to be at a very high level so that it has visibility and national debate.

One of the reasons that our colleagues in business are very reluctant to have a dialog on this issue is because they immediately extrapolate this to national planning. There is an underlying assumption that if a data base is available, soon government will be running their respective business.

In my opinion that is a false charge, that we in this country cannot stand alone and have access to our market and be working in a world competitive situation in which every other nation has an industrial policy. And I concur with my colleague on the right. I am not so sure I am clear how, but I am convinced we will not make it without some means of achieving this. And the first step of that long journey is a sophisticated data base.

Senator **Glenn.** Mr. Galvin, in your full statement which you did not have the opportunity to read, but you summarized, you give an example of some of the Japanese activities with regard to pagers that your company has been very much involved with. I think that is a very interesting one.

Would you recount that very briefly here, and also comment on whether this is a common practice or was that out of the ordinary?

Mr. **Galvin.** Thank you, sir, for your balanced explanation of your earlier statement, and now for the invitation to speak to this major issue.

Pagers are a device that operate essentially in the form of a common carrier communications system. In Japan the responsibility for the providing of that service is the responsibility of the national company, Nippon Telephone & Telegraph.

It has been the practice of that company, which therefore is the practice of the government, that it did business only within its family. It had an identified family of four or five basic companies to whom it would provide tender.

To the great credit of our Government, the people under the offices of Robert Strauss assisted us in identifying to Nippon Telephone & Telegraph that they should open their market to American suppliers. We invested as a company extensive prospecting of business, the fitting into standards, the meeting of unusual quality obligations, and ultimately earned one-sixth of the NTT business. It is a distributed business now among six companies. That will work out to be something less than $10 million a year, and we are very appreciative of it.

We think we have earned something very important to our country ultimately. While it will be a cost burden to us for a while because of all the front money we had to put in, we hope it will be a success to us because we hope it will lead to other business.

But the interesting thing is, we only had one place to go to get business, and that is NTT. There was no way we could take our product to the rest of the market, because they are structured to where they can control access to that marketplace. In this country anybody can try to sell to a multiplicity of common carriers.

Our company, frankly, is a leader in this country right now because we have earned it individually and separately by ourselves over 20 years. But the Japanese decided that they wanted also to move into this market about the same time that we got our first order from NTT. They came in at prices that were about 50 percent of the prices that other Japanese suppliers and ourselves were offering to the marketplace.

Obviously, the Japanese make a very fine product. Almost immediately, we could see where the marketplace would convert entirely to a Japanese source of supply. It is clear they have capacity capabilities as well. They certainly have proved that in all their other businesses. We were obliged to meet these prices, which were inordinately low. It took us into a loss position in our pager business. We cannot afford to let the Japanese take business away.

Incidentally, this is part of a long look. An awful lot of businesses in this country have said, gee, if the Japanese will price predatorily in my business, I guess I had better get out of that business because for the short haul it affects my P&L. But we cannot let them do that, we concluded——

Senator GLENN. Well, continue with the next figure that you had in your statement as to what the comparative price in Japan was.

Mr. GALVIN. Well, the comparative price in Japan as announced by other Japanese suppliers is well in excess of $200 for a pager, and the price that was offered here was well in the $80 range. So it is a relationship of about one-third.

Senator GLENN. They were selling here at one-third the Japanese domestic price. If that is not a predatory pricing policy, I do not know what is.

Did you file suit with ITC or anybody on that?

Mr. GALVIN. Yes, we now have a dumping charge before the ITC on this exact issue.

Senator GLENN. Is this a pattern that has been followed over and over again, or is this an unusual event?

Mr. GALVIN. It is a pattern that is followed in semiconductors and in all manner of other products. The Japanese select a single or a niche area of a market where there is volume, and some company over there is determined to be the one that shall attack that marketplace, or one or two. It is not a common responsibility of everybody. And they just plain drive into that wedge.

Senator GLENN. What mechanisms does the Japanese Government use to support that type of policy? It has happened over and over again so many times, it could hardly be accidental.

Mr. GALVIN. It is a plethora of things. It is a common national research and government program, so that no one company bears all the risk.

Senator GLENN. Through what, through direct government ministries, or through Keidenran or what?

Mr. GALVIN. Are you aware of Public Law 84 in Japan?

Senator GLENN. Not by that number. What is it?

Mr. GALVIN. Well, there are a series of public laws in Japan. There was Public Law 17 in 1971 and Public Law 84 in 1978, that specify the targeted areas where Japan will become a dominant source.

They specify research subsidies of extraordinary proportions, from which everybody can feed to the plants that are selected as being the ones that can practice this.

Senator GLENN. These are government research funds?

Mr. GALVIN. Government-funded, and then also collectively funded from other companies as well for research. Then there is an ordination by the government as to what companies will be in the business. They specify the sizes of the companies that shall be in the business. They tell which companies shall not be in the business.

Can you imagine your trying to tell some of us what we should not be in the business?

Mr. BERÉ. And where to be located.

Mr. GALVIN. And they use all manner of programs under the Ministry of International Trade.

Senator GLENN. How about special credit allocations?

Mr. GALVIN. Well, finances in Japan are centrally managed and oriented. The government may not write a check for the subsidization of something, but they direct by signals and by influences where the banks, which are very centrally coordinated, shall put the funds, and you shall not put them elsewhere.

Low-risk concessionary loans—Japan is oriented to the creation of extraordinary capacity, way beyond their needs and way beyond some moderate success in the marketplaces, but riskless. We take a long term view, but our company or Jim's company cannot decide to put three times the capacity in place in case there is a marketplace. The Japanese do it. They have done it in semiconductors.

If the market happens to develop and some of us who have to be a little chary about our investments are not quite ready, they can glom onto that market with predatory pricing.

Senator GLENN. Mr. Chairman, I know my time is up, but let me ask this question.

This predatory policy and allocation of funding, where the favored development is rotated from year to year among the different areas, so that everyone keeps modern and updated and they let the old industries go down the tube, is that it?

Mr. GALVIN. Well, I do not think they rotate it very much. I think you can look at the same family of successful and ably-managed Japanese companies that are there every year, and they partake of the same trough that was there the year before.

Senator GLENN. Mr. Chairman, I have a few more questions if my time comes up again. I would like a second round.

The CHAIRMAN. Thank you, Senator Glenn.

Senator Hayakawa, we are happy to have our subcommittee chairman here with us today.

Senator HAYAKAWA. Thank you, Mr. Chairman.

Mr. Delano, the Japanese are very successful in keeping value added agricultural products out of their country, while at the same time saturating our market with value added products. What can we do to encourage greater imports of value added products, such as wine or processed vegetables and fruits?

Mr. DELANO. I think you have to remember that the success of Japanese industry or the vast successes in recent years have been dependent upon the fact that they take raw products and produce value added products. Consequently, they build barriers against value added products.

We have to cause the Government to take action to reduce these restrictions that they have on the 22 quota items in agriculture, which are to value added products. Until the Government itself says we are going to lessen the restrictions on these products, there is no way for us to get in there.

Senator HAYAKAWA. There is something I would like to add here about Japanese psychology in general that was explained to me by one of their ministers, not in trade or commerce. He said that one thing you have to understand when you argue about trade with Japan is the Japanese view of themselves, as distinguished from the outsiders' view of Japan.

From the outsiders' view of Japan, Japan is a powerful industrial nation flooding the world with automobiles and television sets and cameras, watches and high technology items of all kinds. Japan is a world power in the eyes of the outside world.

But in the eyes of the Japanese themselves, this man said, we are a poverty-stricken little island with very little arable land and far more mountains than we have fields. We are sufficiently isolated and sufficiently devoid of natural resources so that in the case of a world emergency we could very easily be starved out.

This statement was made to me in explanation of their pricing of rice. At a saki party with the minister of agriculture, at that time Mr. Nakagawa, I asked him, why do you keep the price of rice so terribly high? You support the grower of rice and you make rice so expensive that you have to support the consumer, too. And so you take a bath at both ends. I said, California could sell you all the rice you could eat in Japan at one-third the price your consumer now pays for it.

He laughed at me and said: No, no, one-sixth. [Laughter.]

What you were saying was that there are all of these retired people who go onto farms. You were saying that, Mr. Delano, were you not?

Mr. DELANO. Yes.

Senator HAYAKAWA. And there are these terribly inefficient farms. And when it gets to the cattle industry, you have a big cattle farm when you have five head of cattle, and you do not have a big cattle farm until you have 5,000 here. So the whole scale of agricultural operations there is so different from what it is here.

At any rate, part of this protectionism, according to this minister with whom I was talking, is the fear of a world crisis in which they will be suddenly starved for lack of access of food. And they keep going to the embargo that we placed several years ago upon soybeans to Japan. They suddenly found themselves without adequate supply of soybeans. They keep throwing that up at us and throwing that up at us, and they say, when is that going to happen again? Well, we try to reassure them, but it has had a psychological impact way out of proportion, I think, to its importance.

Of course, as was already pointed out today, one of the things that Japanese politics needs very much is reapportionment, so that the farmer is not overrepresented in the Diet. The urban consumer, the dweller in Tokyo, his vote counts for just a fraction of the power that is represented by the farmer. That is why I say they really need reapportionment in a big way.

I am very grateful to all of you for your deep concern with this. I have been concerned with this ever since I came here in 1977, when our trade deficit with Japan was a little under $10 billion, and I was determined to try to do something about it. The index of my success is it is going to go to $20 billion this year, perhaps. I believe that is the kind of prediction we are getting.

Some of it is due to the decline in the value of the yen, but also much of it is due to the fact that they are more successful in exporting to us than we are in exporting to them. And as a member of the Agriculture Committee I have been very much concerned with the fact that, for example, the Mediterranean fruit fly caused an enormous drop in the amount of agricultural product we could sell them.

Incidentally, this issue. Mr. Delano, was finally resolved, was it not, the Mediterranean fruit fly and the embargo they placed upon us?

Mr. Delano. Yes, sir, it has.

Senator Hayakawa. It has not been revived with the discovery of a few fruit flies this spring, has it?

Mr. Delano. No, sir, it has been resolved.

Senator Hayakawa. That is good. I was afraid that the Republicans had gone around planting them for propaganda purposes. [Laughter.]

I really do not have many questions for you. I want to communicate to you one of the things that I have been trying to do. I have recently introduced a bill by means of which we shall supply Alaskan oil to Japan, and to get around the laws governing the export of Alaskan oil, it becomes a three-way trade, by which means we accept an increased amount of Mexican oil into the United States to replace the Alaskan oil that we ship to Japan. It is a three-way transaction.

This will help Mexico's economy. It will dramatically reduce the cost of oil to Japan by reducing the cost of transportation of that oil all the way from the Persian Gulf to Japan. But most importantly, it will give Japan a stronger feeling of having oil available, both for industry and for defense, in the case of a national emergency, to have this Alaskan oil near at hand.

I just want you to know that these various problems, the economic relations between Japan and the United States, have concerned me very much. I do not know what chance there is of getting such legislation as that on Alaskan oil through during this session, but I want you to know that I have started the ball rolling on this and will keep after it.

The Mexican Ambassador here was entranced with the idea and very pleased about it. The Japanese Ambassador is also very pleased about it, because it helps out in both instances.

There was one other question that I would like to raise. Is it possible for us to compete on even terms with a highly decentralized industry, such as we have in the United States, with lots of competition among large corporations, as compared with the highly centralized, almost cartelized industries they have in Japan? The Japanese trade associations, the Japanese monopolies, seem to have understandings among themselves which, if operative in the United States, would come under antitrust investigation at once, would they not?

It seems to me that we are very often fighting a situation which would in the United States be subject to antitrust prosecution and breaking up, whereas we fight as individual companies in scattered ways. Am I right in seeing the situation in this way?

Mr. GALVIN. My answer to your question, sir, is that we cannot compete individually against the entity.

Senator HAYAKAWA. That is, they are far more centrally organized as an economy than we are.

Mr. GALVIN. When they engage in two basic practices—one, persistent distortions of the receipt of goods——

Senator HAYAKAWA. Persistent what?

Mr. GALVIN. Persistent distortions, not permitting access to their market; and by doing this collaborative and collective activity together. We cannot compete against the combination of those two practices.

Senator HAYAKAWA. Does anybody else have a comment on this?

Mr. BERÉ. I may not feel as strongly as Mr. Galvin on that issue. I am a strong advocate of decentralization. I think it gives us a great opportunity to release the great creativity of our people. However, I think I am someplace along the journey in which I suggested that we must have some mechanisms available to us, so that we in the United States can react in our best interests.

We must find a way to integrate our free system into our foreign policy in a way that we would not be subject to the things that Mr. Galvin very eloquently has stated.

Senator HAYAKAWA. Gentlemen, thank you very much. And thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Senator Hayakawa.

Senator Boschwitz.

Senator BOSCHWITZ. Thank you, Mr. Chairman.

I apologize for arriving late. I had another hearing to attend. I read Mr. Delano's statement and I am just reading Mr. Galvin's statement.

Mr. Galvin, perhaps you have said this in your testimony already, but what do the Japanese say when you go over there and confront them with the difficulties that you have of introducing materials to their market. I see that you are talking about radio pagers. I know that we had a CB manufacturer in Waseca, Minn., who is now making automobile telephones. They were just about put out of business by the Japanese.

What do they say when you go over there? Why are we not able to sell in their marketplace?

Mr. GALVIN. Well, the issue is essentially obfuscated by referring to the fact that, well, you cannot quite meet our terms, you cannot quite meet our quality, you cannot quite meet our delivery, and you cannot quite meet our standards. Those are the general explanations that are made to us.

And I think possibly a classic additional evidence of explanation is in order. There is a filing currently before the U.S. Government by the Houdaille Industries Co., a machine tool business, asking for some effective trade action vis-a-vis the conduct of the Government and the machine tool industry of Japan. And the response of the Japanese is an admission that they engaged in all the tactics that I have been outlining in my speech, but they say, it is perfectly all right. If we want to engage in those, that is right, we should be able to do that. So there is no basis for you proceeding against us because we want to do what we do.

It is unreasonable, but that is the answer we are getting. I would suggest, I would be pleased to furnish to this committee the public document that comes from Japan in response to this matter. It is a most remarkable defense of their position. It is an admission that it is perfectly OK for them to engage in these tactics.

Senator Boschwitz. I would appreciate your making that available.

Mr. Galvin. I will file it with the committee promptly.

Senator Boschwitz. Perhaps we can hold the record open for that.

The Chairman. We will hold the record open for that. Can you give us an approximate estimate as to how long it will take to get that?

Mr. Galvin. I can have copies over to you this afternoon.

The Chairman. Thank you.

[The material referred to follows:]

EMBASSY OF JAPAN,
Washington, D.C., August 5, 1982.

The Embassy of Japan presents its compliments to the Department of State and has the honor to refer to a petition filed on May 3, 1982, by Houdaille Industries, Inc., seeking a Presidential order under Section 103(D) of the Revenue Act of 1971 that would deny the benefit of the investment tax credit provided by Sections 38 and 46–48 of the Internal Revenue Code to purchasers of certain Japanese manufactured machining centers and metal punching machines. The Embassy has further the honor to inform the Department of the views of the Government of Japan on the aforementioned petition as stated in the attachment to this Note.

ATTACHMENT

1. It has recently come to the attention of the Government of Japan that an interagency review by the U.S. Government is currently being undertaken of a petition filed by Houdaille Industries, Inc. seeking a Presidential order under Section 103(D) of the Revenue Act of 1971 that would deny the benefit of the investment tax credit provided by Section 38 and 46–48 of the Internal Revenue Code to purchasers of certain Japanese manufactured machining centers and metal punching machines. The Government of Japan has reviewed the petition and considers that its substantive allegations with regard to the acts and policies of the Government of Japan are based on misunderstanding or misinterpretation. The Government of Japan does not engage in discriminatory or other acts unjustifiably restricting United States commerce, and the particular assertion that Japan tolerates an international cartel in the machine tool industry is at variance with the realities of Japanese laws, policies and Governmental actions.

2. The Government of Japan believes that the unilateral action by the U.S. Government being requested, if taken, would be most unfortunate in view of the two Governments' past efforts to strengthen economic cooperation and resolve trade problems through close cooperation. For its part, the Government of Japan made special efforts to reduce bilateral trade frictions affecting various industries, such as automobiles, consumer electronics and the machine tool industry itself. The measures taken by the Government of Japan include the recent decision to reduce to zero tariffs on machine tools including machining centers described in Item 8445.1 of the Japanese Tariff Schedule and the enforcement of certain arrangements described hereinafter under the Export and Import Trade Law and other relevant legislation under which Japanese manufactured machine tool exporters are obligated to take appropriate steps to promote the sound development of foreign trade and to avoid unnecessary trade frictions.

3. The action the U.S. Government is being petitioned to take would be difficult to reconcile with GATT Article I (Most Favored Nation Treatment) and Article III (National Treatment) as well as with Article XVI of the U.S.-Japan Treaty of Friendship, Commerce and Navigation. The U.S. Government has a long record of defending the spirit and the letter of these Articles, and the Government of Japan is confident that it will continue to do so.

The Government of Japan understands that the U.S. Government is being requested to take the proposed action under GATT Article XX (Security Exceptions) on the ground that this Article would exempt the U.S. Government from the obligations of GATT Article I and Article III. However, it is the view of the Government of Japan that there is little basis for an invocation of this exception in this particular case. Moreover, recognizing the risk of undermining the GATT by unwarranted use of this exception clause, the contracting parties to the GATT have, up to now, exercised great restraint in taking advantage of this security exception. Indeed, if the U.S. Government takes such an action with regard to the case before us, it would be to set a dangerous precedent for any country seeking relief from their GATT obligations.

It would be ironic, as well as tragic, if the above were to happen at the very time when the U.S. Government is putting so much effort into the preparations for the November Ministerial Meeting whose purpose is not only to broaden the GATT's area of responsibility but to strengthen it.

4. While it is true that the Government of Japan executed certain actions and policies which were designed to stimulate and promote the recovery of the Japanese machinery industries, including the machine tool industry, from their devastated situation immediately after World War II, not only those actions and policies were legitimate and justifiable but also similar governmental actions and policies were found in various other countries, including Europe. Furthermore, the Government of Japan has been implementing its industrial policies by presenting future visions of relevant industries or issuing instructions to relevant industries, when necessary. The aim of such actions has been to promote or maintain the fair and sound development of relevant industries in accordance with the level of maturity of each industry. Neither the objective nor the effect of those actions is anticompetitive.

The petition in this proceeding is related to numerically controlled machining centers and numerically controlled metal punching machines. It should be noted that they are the products developed rapidly during the past decade or so based on the recent development of the computer technology. The petitioner referred to certain governmental actions and policies some of which took place more than 20 years ago. The Government of Japan believes that it is totally irrelevant to interrelate the trade matters of such recently developed products to the past events more than 20 years ago.

More importantly, the recent development of the Japanese machine tool industry is mostly due to voluntary and spontaneous efforts, in terms of management and technology, of each enterprise in the highly-competitive industrial conditions. According to various published studies prepared for the U.S. Government, the reason why Japanese manufactured machine tools have recently come to be accepted by U.S. users widely is that, when the U.S. domestic demand rapidly grew in excess of the U.S. domestic manufacturers' supply capacity, Japanese manufactured machine tools were favorably evaluated by U.S. users in terms of, among other factors, quality, short-delivery, and good after-sales services. The petitioner's assertion that the increase of the U.S. imports of Japanese manufactured machine tools should be attributed, above all, to actions and policies of the Government of Japan is rebutted by the realities.

5. As stated earlier, the Government of Japan has reviewed the allegations of the petition with regard to its acts and policies and finds that they are without merit. The Government of Japan particularly wishes to call the attention of the U.S. Government to the following:

(1) Law No. 154 of 1956 (Law for Temporary Measures to Promote the Machinery Industry, expired on March 31, 1971), Law No. 17 of 1971 (Law for Temporary Measures to Promote Specific Electronic Industries and Machinery Industries, expired on March 31, 1978), and Law No. 84 of 1978 (Law for Temporary Measures to Promote Specific Machinery and Information Industries) (hereinafter collectively referred to as the "Temporary Measures Laws") were enacted by the Japanese Diet in order to promote the general welfare of the people of Japan through the development of relevant industries. The Ministry of International Trade and Industry (hereinafter referred to as "MITI") has been the government organ empowered by the Temporary Measures Laws to implement the policies expressed therein. The Temporary Measures Laws authorize MITI, among other things, to instruct enterprises to cooperate in specific areas in order to fulfill the purposes of the laws. However, the cooperative action is authorized provided that it does not exceed the action necessary to fulfill the policies of MITI, that there is no likelihood of being unfairly detrimental to the interests of

consumers or enterprises engaged in related industries, and that the cooperative action is not unfairly discriminatory. Cooperative actions by individual enterprises which comply with instructions given by MITI under the Temporary Measures Laws are in conformity with Japanese antitrust laws (Law concerning Prohibition of Private Monopoly and Maintenance of Fair Trade, Law No. 54 of 1947).

As authorized by the Temporary Measures Laws, the Japanese Cabinet designated certain machine tools as among those products subject to the Temporary Measures Laws. Accordingly, MITI has been empowered under the Temporary Measures Laws to instruct enterprises that produce such machine tools to engage in cooperative action. Further, cooperative actions of those enterprises were in the past taken in order to comply with MITI's instructions. Actions taken by these machine tool producers in compliance with MITI's instructions authorized by the Temporary Measures Laws were not unfairly detrimental to the interests of consumers or of enterprises engaged in related industries, nor were they unfairly discriminatory. The cooperative actions undertaken by Japanese machine tool producers in compliance with MITI's instructions are nothing less than the implementation of the policies of MITI under authorizaton of the Temporary Measures Laws.

(2) Law No. 299 of 1952 (The Export and Import Trade Law) was enacted by the Japanese Diet in order to promote the sound development of foreign trade by preventing unfair export trading practices and by establishing an orderly system for export and import trading. MITI is the government organ empowered to implement the policies expressed in the Export and Import Trade Law.

In order to promote those policies, if MITI deems some measures to be necessary to achieve the purposes mentioned above, MITI will generally instruct the relevant Japanese industry or exporters' association to enter into arrangements pursuant to the Export and Import Trade Law. Such arrangements concluded under the Export and Import Trade Law and carried out under MITI's instructions in order to assure orderly Japanese exportation activities are the actual implementation of MITI's trade policy itself. Moreover, the arrangements of individual enterprises or of associations under the Export and Import Trade Law are in conformity with Japanese antitrust laws.

In connection with the export of certain numerically controlled machining centers and numerically controlled lathes to North America, on December 14, 1977 MITI instructed Japanese exporters of such machining centers and lathes to enter into an arrangement under Article 11, Paragraph 2 of the Export and Import Trade Law to establish an orderly activities for exports to the United States and Canada. In compliance with the MITI's instructions, the Japan Machinery Exporters' Association, which include exporters of such numerically controlled machining centers and numerically controlled lathes among its members, made an arrangement with respect to minimum prices and other matters related to the exports to the United States and Canada on March 1, 1978. The above arrangements taken by the exporters in compliance with the MITI's instructions were nothing less than the implementation of the policies of MITI as authorized by the Export and Import Trade Law. These arrangements are in conformity with Japanese antitrust laws.

6. To conclude, for the reasons set forth above, the Government of Japan believes that the U.S. Government does not have any reason to take the action requested by Houdaille Industries, Inc. under Section 103(D) of the Revenue Act of 1971. Moreover, that the U.S. Government's taking the said action could adversely affect the future smooth trade cooperation between our two countries. Accordingly, it is the hope of the Government of Japan that the U.S. Government will handle this petition in such a manner as to avoid any disruption of the close cooperative relationship which our two countries have been enjoying so far.

Senator BOSCHWITZ. That should be interesting.

I know that Mr. Blumenthal, when he was Secretary of the Treasury, came before the Steel Caucus and I brought this whole matter up with him. He said that the Japanese have a very complicated distribution system and asked me if I had ever been there. Well, I have not been there.

He said if I went down to the Ginza I would see these little stores. Their distribution system is extremely complex.

How do you respond to that, that as a result of this complexity it becomes very expensive to market our products over there.

Mr. GALVIN. In answer to your question, sir, it is a complex system. But I would like to distinguish between a distribution system that moves products into the consumer marketplace, which is extremely complex, and the distribution systems, of which there are many, when one moves a product into what is called the original equipment manufacturer business, the OEM business, where for the most part we have the opportunity to do business directly with our customers. Even that is more difficult if we wish to use distributors or agents, but we can more simply get to the customers.

But once you are talking to the customers, it is very difficult to cause them to accede to doing a reasonable amount of business with you because they just keep finding one defense after another, and finally they just plain say, well, we are going to load our own plants.

Let me give you an example and urge that this committee might investigate a business that is outside of my purview, the handtool business. This is not a distribution question, sir, but talking about handtools—pliers, screwdrivers, et cetera.

You would hardly think that was a matter of unique technology. People ought to know how to do that after decades, or special standards. The handtools industry in this country enjoys about 1 percent of the Japanese market. I am sure the Japanese suppliers enjoy a multiple percent—10, 20, or 30 percent of the marketplace here.

The reason why the handtool manufacturers are doing so little business is that they have just discovered that there are subtle standards-making organizations in Japan, and because they have never known of these standards societies, had not bothered to get our pliers approved by these standards. And they have been told, oh, now that you know about that, it may take 3 or 4 years for us to be able to get those standards approved.

In the meantime, then, the system of distribution will not distribute the non-Japanese standards products. It is a very complex maze of one piece of the society playing off against the other piece of the society. It is just not where the store is or who buys what. It is the whole system making the maze so complex that even if you could get there, it is maybe so expensive that most people who would like to take the long term have to say it is not worth it.

Senator BOSCHWITZ. And you maintain that the maze is part of an obstructionist type of pattern that does not serve any reasonable economic purpose, is that correct?

Mr. GALVIN. It certainly appears at least coincidentally to be that, sir.

Senator BOSCHWITZ. It does to me, too. I have imported a lot of stuff from Japan in my plywood business. We handle some handtools as well. I have been in the manufacturing business and in the distribution business, in Chicago and in other places. And the business of manufacturing is far more complex than the business of distributing.

It always amazed me that the Japanese were able to master the most technical aspects of manufacturing, but still have such a confusing distribution system. It did not make much sense to me.

I will read your speech with great interest, and also whatever other submissions you may make. I also have a great interest in the agricultural issues. I concur with Senator Hayakawa that their farmers are far better organized politically and enjoy the advantage of some gerrymandering that we do not have in this country.

This body, Mr. Delano, is a very urban-oriented type of institution. So is the other body across the road here, the House of Representatives, perhaps even more so. I find it very disconcerting that the various farm organizations or the various people representing the milk industry may go in different directions. It is a luxury that you may have had when you represented 30 percent of the population, but now that it is down to 3 or 4, I would hope that the farm organizations and the various elements of the food chain, particularly at the production end, would operate a little bit more in tandem one with the other.

You say in your speech that we provide almost all the soybeans that the Japanese use, and more than half of their wheat and feed grains. I understood that a large number of their soybeans came from Brazil.

Mr. DELANO. Quite the contrary, Senator. I had thought that, too, but they do not. Most of Brazil's soybeans that are exported, or a large portion of their soybeans, are in processed form and in meal form. Much goes to the European Community, but very little goes to Japan.

Senator BOSCHWITZ. Is that right, because they have made quite an investment in Brazil as a result of our embargo.

Mr. DELANO. That is correct, sir. But the latest statistics show that a large majority, just about all, 95 percent, comes from the United States.

Senator BOSCHWITZ. Are the 22 different agricultural items that you talked to the Japanese about mostly value added?

Mr. DELANO. Yes, sir, just about all are value added products.

I might comment on an earlier statement. You have to remember that they have not had one-man, one-vote in Japan.

Senator BOSCHWITZ. I understand that. It is gerrymandered.

Mr. Chairman, I see that my time is up, but if I may I would like to ask a final question. If all nontariff barriers—and this is addressed to the entire panel—in Japan were lifted, how much do you think our trade imbalance would be diminished? Perhaps we would have a trade surplus. Of course, in agriculture I am sure that is so. We sell them what, $7 billion a year, and they ship to us a few hundred million dollars or something like that.

Are we competing as effectively in Japan as we might? That is the second part of my question. But let us just concentrate on the first part. If all nontariff barriers in Japan were lifted, what would happen to our trade imbalance? Perhaps each of you could briefly address that.

Mr. DELANO. This question was raised earlier, Senator. I have no way of knowing how much it would be. I did comment that I did have the figures that in California alone it would increase agricultural products by at least $1 billion. But I have no way of knowing what it would be.

Senator BOSCHWITZ. Agriculturally, what do you think? Instead of sending them $7 billion—and I think that was the figure—how much do you think we would send them?

Mr. DELANO. Well, I certainly think we would double it, at least. Again, I do not have the figures, but certainly I would be safe in saying we could double the amount of agricultural exports.

Mr. **Beré**. Again, I do not have a number. It is a very difficult determination to make, but our guess would be between $3 and $7 billion.

Senator **Boschwitz**. That the exports would increase?

Mr. **Beré**. The balance would change. In other words, if you had a $20 billion imbalance, you could diminish that between $3 and $7 billion. This gives me a concern because I think there has been an overemphasis on the access of market as the only solution to our trade imbalance.

It also surprises me that our Japanese friends are so reluctant to have access to the market, in that I think from the material point of view it does not make that much difference.

Mr. **Galvin**. Any answer that any of us gives has to be speculative, of course. We import about $4 billion worth of high technology commercial and industrial type of electronics, and we sell about $2 billion. I think that we would very readily bring that at least back into balance if we were allowed to sell and they were willing to buy in Japan.

Historically, we speculate—and it is in my document—that if there had not been the distortions that have existed for the last 25 years and the Japanese had bought from us as accredited suppliers in a free market, just as the Europeans bought from us in a free market over the last couple of decades, it would probably have represented a differential of some $15 billion just for a couple of our industries, not for the United States overall. It would have been much greater for the United States, but a few of our industries in the high technology area would just plain have had a much larger share of that market and therefore a larger volume, and would have had all of the consequential benefits.

Senator **Boschwitz**. May I ask, Mr. Beré, this question. Did you say there was a $28 billion imbalance?

Mr. **Beré**. I hope I did not say that. I think it is someplace between $20 and $22 billion, sir.

Senator **Boschwitz**. Thank you, Mr. Chairman.

The **Chairman**. Thank you, Senator Boschwitz.

I think we ought to get from our trade office the best estimate we could for not only agricultural product potential, but also for industrial as well. What would the balance be if we had the same access to their markets that they have to our market? And we ought to see what the size of that potential is and go after it.

Because I think, Mr. Galvin, as you summarize your statement at Hyannis in June, we have got to have a win-win relationship. We must simply put our case forward on the basis that this is a must relationship, and to have a solid relationship for the future, we want the same access you have or we are going to deny that same access to you. That is the only way. I can see and feel that movement coming in this country, and that would be a no-win situation for everyone.

We all remember what Smoot-Hawley did to the world economy. Once you start protectionism, it just keeps on going. But there has got to be an understanding on their part that we are going to start playing hardball on this, and we want fairness and we want access. I think Japanese consumers themselves are being penalized by not having available to them the product of industry and agriculture from this country.

I would like to followup on Senator Glenn's question on the pagers. Here is my own personal pager that I use when I am away from the Senate, but in the Washington area.

Senator GLENN. What is the manufacturer, Mr. Chairman? I would like to check. Is that a Motorola?

The CHAIRMAN. Yes, that is a Motorola. [Laughter.]

Senator BOSCHWITZ. I am under the impression that everything in the United States must come from Illinois. [Laughter.]

Senator GLENN. Including three witnesses. [Laughter.]

The CHAIRMAN. Mr. Galvin, you said that we must recast U.S. trade laws to make targeting by foreign industrial policies grounds for relief. Do you feel that the trade laws are adequate today to protect the pager industry, for instance, the American pager industry, against unfair dumping by Japan in this market, or does something else have to be done by us?

Mr. GALVIN. No, our trade laws are not adequate. They require an inordinate set of hurdles from those of us who would like to use the legal process. Once having jumped those hurdles—and there are tremendous risks associated with that, even—then it takes an extraordinary length of time to resolve these matters.

So I think there is a strengthening of the laws that are required and improvement in the timeliness of the application. I believe there is a place in this whole process where government cognizance based on the information and intelligence process that Jim was referring to, ultimately being willing to self-initiate these actions, because these are government-to-government problems to a substantial degree, and therefore I do not think we should be doing all of this work in this area.

It is extremely costly for us to do it. It is not popular. Many people in the country do not like to see us bringing bad news. So I think there has to be a wholesale look at the refinement, enhancing, strengthening and making more timely of our various laws.

The CHAIRMAN. Thank you.

Mr. Beré, Borg-Warner is a company that has put a tremendous amount of effort, energy and resources into doing business with Japan. I have done a lot of business in Japan myself over the years as a businessman. I have had a lot of Japanese people in Government and in business say, well, the United States could do a lot better in Japan if it would just try harder.

How do you respond to that kind of comment by our Japanese friends?

Mr. BERÉ. First, Mr. Chairman, I would acknowledge that that is a common retort when we have a dialog on the issues about which we are speaking. Senator Glenn heard much of it at the Shimoda conference. I heard it there too. You hear it from the Diet members, you hear it from the business persons.

You start out with the premise that the United States wants immediate results and that we have no interest in long-term objectives, that we have no interest in being linguists, that we do not understand their language, that we are insensitive to their distribution system. We continue to hear the litany that they are at an adolescent stage at best and therefore we are asking them to go to the international table—the only situation—I think the only way we can respond to it, first Borg-Warner responded specifically. We decided we would go there, because the laws were such that there was a requirement.

But two is—I think Mr. Galvin has outlined it—we have to find a way to make them substantiate this. I must say, we as Americans are impatient. But we should go there. Where can you make a sales call for 3 weeks, just trying to go through this maze of things that have been outlined? As a consequence, most of our people had an opportunity to go someplace else.

The CHAIRMAN. As a member of the Presidential Commission on Exports, at the first meeting I attended 6 months ago I asked the question, what incentives do we have for our commercial attachés, for people in the Foreign Agricultural Service, to move American products? Are they under the bonus system?

The answer is that they were not. I am pleased that the Reagan administration has agreed with me and in 60 days a system of incentives was in place. They are now eligible for bonuses, substantial bonuses, if they help move products. They are competitive with one another. Everyone is competitive around the world.

I wonder, Mr. Delano, can you comment on how much help you do get from the Foreign Agricultural Service? Is it effective? What is your experience with U.S. Government assistance abroad? Have you become familiar with the bonus system? Do you think it will help and possibly provide incentives to U.S. Government personnel involved in agriculture abroad?

Mr. DELANO. Are you speaking, then, beyond Japan and thinking generally abroad?

The CHAIRMAN. Yes, broadly, but also in Japan, because that is the biggest potential market.

Mr. DELANO. I might raise some questions on the agricultural issue. Certainly in Japan I do not think that is a problem. Access is the problem.

I do think that the FAS people around the world make a tremendous contribution relative to agriculture in promoting, either through trade shows or making direct contacts with agricultural importers of various agricultural products. I would be willing to look at the system, sir, but I would say that I have some reservations about the incentive system applying to agriculture. It would be rather cumbersome to administer, I would say, relative to agriculture, a little less of a problem perhaps in the industrial sector.

The CHAIRMAN. Well, I would like to talk to you about it. I do not think human nature changes at all, whether selling agricultural products or other kinds of products. We should discuss it in greater detail at some future time.

Mr. DELANO. OK.

The CHAIRMAN. But I would say that you are right when you state that, in Japan, that is not the heart of the problem at all. There are barriers and no matter how much incentive individuals may have they would have a difficult time overcoming those barriers.

Mr. Galvin, one point that you made in your testimony is that Japan is still benefiting from past protectionist policies, even though these past policies may have been somewhat corrected in the meantime, and even some are no longer practiced today. You have argued that we should seek compensation for damages already done.

What form of compensation would be appropriate in your judgment?

Mr. GALVIN. I must say that I am obviously traveling new ground, and that I am dealing with just the common justice issue that somehow or other if one has been taken advantage of there ought to be some form of compensation. I think that the people of Government stature like yourself, administration people, must find that methodology, either in direct compensation to industries in terms of funds that might be used here for some common research, or maybe it has to be in an indirect way.

Maybe it indeed becomes a compensation for the defense posture or the security posture. I do not know whether it is direct or indirect. I think there is a principle here that ought to be debated. I think it is probably the most extreme of the recommendations that I make, though I do it with sincerity. But I think it requires some imagination.

The CHAIRMAN. You state also that U.S. Government research policies cannot now be employed effectively to deal with the particular problem in the high technology area. What would you propose in terms of research policy? Possibly, Mr. Beré, you would like to comment on research policy and what we might do, if anything, from the governmental standpoint to improve our relative position?

Mr. Galvin, would you answer first?

Mr. GALVIN. I would be pleased to. I would like to join with Senator Glenn on this subject, not entirely but certainly substantially. I think that we must recognize that the foundation of our high technology competence is intelligence, the wisdom of the mind. This must be taught. Therefore, there must be encouragement in the development of the teaching fraternity in our society. We are denuding it at this time.

Our companies are our own worst enemies, because we are attracting the scarce intelligence people into our organizations, who do not stay to get their Ph. D.'s and then to teach and then to renew our intelligence resources. I think this is a public responsibility. I think it is a priority public responsibility and is primary. Therefore, there does need to be public allocation of resources to a much greater degree and the encouragement of more private investment resources into the whole teaching-research structure of our academics.

I think there has to be some seeding of very advanced research by the Government. These things are all road mappable. We can predict what we ought to be working on and therefore hopefully get benefits from them.

Some of these are beyond even the long-term look of large companies in our industry, with the possible exception of maybe a Bell or an IBM, which have unusually high resources. So I think there are public policy issues that need to be addressed that could encourage research with academia and in the private sector.

Mr. BERÉ. I would concur with that statement as well, Senator Glenn. I am a little concerned about the educational aspect of it, but without probing that particular part we are in deep trouble. It is very impressive to me that in our business schools today we teach our young people today to be riskless rather than risktakers.

Now, you put that in the context of research. So I think we do have a great void, as you have said and as Senator Glenn has stated in other audiences, of finding a concerted way to step back into our educational process as to how we should do this, and then also make a determination, what role should the Federal Government also play, not in that process but also in specific targeting of research which under no circumstances could be done by individual companies.

Mr. **Galvin**. May I add just one last thought to this whole situation, please? This will sound heretical in the great democracy, but I would put a great deal of emphasis on investing in those who have the more extraordinary competences.

So much of our society is oriented toward, what do we do for "the common man." Well, we are all the common man, sitting at your table, sitting at my table, walking the streets. We are all the common man. But we do have some extraordinarily talented people, and I say bet on them because they will lead us into the greater advances.

The **Chairman**. I want to thank you very much.

Senator Glenn, I would like to ask if you would be good enough to chair the conclusion of the hearing.

Senator **Glenn**. Thank you. I do have a few more questions.

The **Chairman**. I must leave to attend the leadership meeting in Howard Baker's office, which is starting right now. But before I leave, I would like to clarify for Mr. Delano the suggestion I made to the Japanese Government in writing and followed up many times in person. I have proposed that the Japanese buy U.S. farm products with yen, and that they distribute it as humanitarian assistance to developing nations.

The first substantial response to my proposal several years ago came in a couple of weeks when the Japanese did not buy products here, but they took 50,000 tons of rice off their own market and exported it to Cambodia, which is now Kampuchea. But since then they have begun a small program of buying American agricultural products and dispersing it as humanitarian assistance. I commend the Japanese for their good efforts. Much more needs to be done, but at least the principle has been established.

I know, Senator Glenn, that Mr. Delano has to catch a plane, for which he must leave in a few minutes. So possibly your first question could go to him so that he could be excused.

I want to thank all three of you very much indeed for being here. Yours has been invaluable testimony.

Senator Mathias, who is the chairman of our Subcommittee on International Economic Policy, is out of town and could not be here. He wants me to express his deep regrets. He will read carefully the testimony.

I want you to know that this committee, I think for the first time, has raised U.S. economic and commercial policy overseas to a very high level. I have asked the committee to devote increasing amounts of time in conjunction with the State Department in this area. I put in the bill that created the Under Secretary for Economic Affairs, a full-time Under Secretary of State post for that area. We have never had one before and we now have one. Allan Wallis will be an outstanding one.

As chairman of this committee, I have wanted to devote more committee time to economic issues. We cannot have a credible foreign policy without a very strong national defense, and we cannot afford that strong national defense unless we have a very strong and growing economy.

The Finance Committee deals with the details of legislative approaches to international trade. We work closely with them to determine where we should go. And here we have with Japan an extremely important relationship. We want to work with the Japanese. We want to have a win-win policy. But we want it on a fair basis, and we are going to be just as hardnosed in bargaining as they have been. We respect their ability to bargain hard and they will respect our ability.

We intend to work with the Reagan administration in a fair, but firm way to see that we get a fair shake in Japan. We must get away from this impression that is spreading across the country, which the Los Angeles Times national survey showed, that the No. 2 enemy as far as unemployment is concerned in the minds of Americans is the Japanese trade policy.

Now, that is a dangerous thing to have happen in public perception. We need to get to the root of our problems and resolve them and we are willing to spend a lot of time doing it. I think you started off this series of hearings in a very fine way and we deeply appreciate it.

Senator Glenn, thank you.

Senator GLENN [presiding]. Thank you, Mr. Chairman.

I will try to be brief. Gentlemen, you have been very patient this morning. Mr. Delano, if you have to leave to go to the airport, please go ahead and set your own schedule, because my questions will be rather general. They are not targeted directly to you.

Let me get back to education for a moment, to hit that one more time, although this is not an education hearing. I have two bills in. One is on teacher training. There is a 15-percent vacancy in our secondary schools of science teachers. I think that is tragic.

There are two bills now, one that would encourage industry on some loans with incentives to let some of their people come back and teach in schools, things like that. But in the physical sciences last year we graduated in this country 50,000 graduates. The Japanese, with half our population, graduated 74,000. The Soviets, we estimate, graduated 300,000.

And in 30 of our 50 States, 60 percent of our States, the requirements in science for high school graduation are one course. The requirements for graduation from high school are one course, which in most cases can be filled by something like hygiene, when to wash your hands. That is tragic when we are getting down to that stage, and the other countries of course are upping their levels of education in those areas.

But Mr. Beré, at the Shimoda conference we went to about a year ago the defense subject was an important topic. If you recall, I suggested several means by which the Japanese could support our defense efforts without violating their own constitutional restrictions on nonoffensive war and their own public opinion which have led them to renounce war and things nuclear and no offensive military action and so on.

I suggested then that ship maintenance and overhaul, naval costs of us keeping sea lanes open to the Persian Gulf, base cost sharing and assistance in the Third World, all were things in which they could take a bigger role and would amount to several billion dollars which would help us out.

But they have not seen fit to act on that. They take great pride in saying they have upped their own defense expenditures this year by 7½ percent. But then the next part is not stressed. That 7½ percent is 7½ percent on a base that is already down so low that it leaves the total still as of right this moment, I believe, at .0933 percent of their GNP. So they are still under their self-imposed limit of 1 percent of GNP, which is tremendously low.

But back to the subject of today. The Europeans have faced some of the same problems with the Japanese. How have they been able to control it any better than we have? This is directed to either or both of you.

Mr. BERÉ. I do not know how they control it and I am impressed. The French only have about 4 or 5 percent of Japanese automobiles going into France.

Senator GLENN. Well, they just set quotas over there. The average European, auto imports permitted are 11 percent, I think, the average for European countries. They just set a quota, I believe.

Mr. BERÉ. In a tripartite which I attended with the Community and the Japanese group, they were very vociferous, with government backing, on injecting a discipline if they did not think there was equity in the trade relationship.

Senator GLENN. Thank you.

Mr. Galvin?

Mr. GALVIN. I concur in the answers that each of you has exchanged, and that is they have just plain decided there is a limit and that is it. I hope that that will not be a model for our approach to the problem. I think it is wrong and it is simplistic. Maybe that is the only way we are going to get their attention.

But in the long run, I look to access to our market by the Japanese. I do not think we should have quota after quota after quota, as long as the reciprocal is available to us.

Senator GLENN. How big a factor are wage and productivity differences? Can we compete with the Japanese on a wage and productivity basis in world markets?

Mr. GALVIN. The answer is expressly yes to that, if you would permit me to define, narrow question. Wages and productivity within the shop are essentially equivalent between the United States and Japan on high technology industries. I cannot speak for the automotive industry, for example.

But as you know, sir, the analysis of the cost structure of a company or an industry is a complex of many more things than that: financing costs, centralized research, subsidizations, et cetera. And when you take and go through a litany of about 15 or 20 of the factors that incrementally can affect the cost of doing business by the Japanese, you aggregate of all of those places them at an advantage. But almost none of them are market-determined factors.

Mr. BERÉ. My answer would be, we could compete, but there are many other barriers prior to that particular issue.

Senator GLENN. The Japanese operate on a partial tenure system. Around a third of their people—I forget the exact figures—have the tenure system, the familial relationship with the company that they work for. About a third are on a partial system like that, and about a third are free-float labor force, as we would know it in this country.

What impact does that have? Does that feed into these other factors that you mentioned a moment ago, the 15 or so?

Mr. **Galvin**. I think the Japanese have many admirable aspects of their process and way of doing business. I am sure there are a large number of people who feel a high sense of confidence and security that when they are with that fine Japanese company they do not have to worry about the risk of their job and they can really give it the best of their talents.

There are lots of things that we admire about their society in that regard. Incidentally, most companies like Borg-Warner, I assume, and our company, we very much encourage senior employment. Nobody can be let go from our company who has been with our company for 10 years that I do not review. I am sure processes of that kind exist in all enlightened companies. We really believe in lifetime employment of our people to a very substantial degree. So we do mimic each other, in essence, to a large degree.

Senator **Glenn**. I do not know if you have ever read Edward Reischauer's book called "The Japanese." which gives an excellent background of how some of these familial attitudes and loyalty to clan, group, country have developed.

How much would the Japanese markets still be restricted to us just by that factor, I have wondered? I do not know the answer to this. I would appreciate your opinion on it. In other words, they have the family attitude. It is sort of expected that you buy Japanese and you are somehow a little disloyal to the country if you do not, a feeling that would not be the case in our own country here.

But they have that because there has been a family attitude. Their loyalty is something that is really engrained in the Japanese psyche.

How much does that mitigate against our being able to crack markets? And there is a difference here, I realize, between consumer goods or the capital goods or industrial goods that you spoke of, Mr. Galvin? Do you feel that is a major factor?

Mr. **Galvin**. I would defer to Mr. Beré.

Mr. **Beré**. I do not know the degree of it, but I think it is a major factor. They have imbued in them a loyalty to the enterprise and their product which must have an impact. I question whether, like the United States, where you may see a Chrysler worker arrive in a Datsun, that you would see that in Japan. I think it is a factor and I think we have to give them credit for that in the sense of motivating those people and getting them to realize that that enterprise' success is so vital to their success that they had better react to this.

Senator **Glenn**. If that is true, that could be a very major factor on our being able to really crack Japanese markets.

Mr. **Beré**. Yes, sir. And I must tell you that I am appalled, particularly, in a side that I do not know very well, when the numbers are given of how agricultural prices would be reduced from the consumer's point of view in Japan and there is still not an outcry to bring in those goods.

Senator **Glenn**. Well, the argument that you get on that one is that when you say, open up the rice markets so we can send rice in there is, you would topple the government.

Mr. **Beré**. Yes.

Senator **Glenn**. It is that important that they keep their agricultural base.

Mr. **Galvin**. If I may, I would agree with Mr. Beré and add a very important case history. Not only is that a very prevalent attitude with regard to the marketplace buying the person's product, but it has to do with the selling of a company.

We have decided to do everything we can to be a part of the Japanese society, to and including the acquisition of a corporation in Japan. I called a very respected industrialist in Japan, a Japanese citizen with whom we have had the privilege of long association, and I have the highest respect for him. And I said, we desire to buy a part and ultimately maybe the entire interest of such and such a company. Could you give me some counsel as to how to do it?

He said, oh, you cannot do that. We cannot sell companies in Japan to foreigners. That is not part of our culture. That would be looked down upon by the rest of our society. I said, it has got to happen. He said, you cannot do it. I said, well, I am sorry, I cannot accept your advice.

We proceeded to finally persuade the people that they should sell half and in the next 30 days we will close the purchase of the other half of this business. Incidentally, it will not be a major public ceremony, because this is not something the Japanese are proud of.

Senator **Glenn**. This will be 100 percent American ownership?

Mr. **Galvin**. Yes. We will own 100 percent of this particular entity. It is a fine company, fine people, and it was the proper redistribution of the resources of the company that sold it. It was a very intelligent business decision for both parties. But it is something culturally that they cannot be proud of. They cannot be proud of buying the other person's product or selling one of their productive facilities.

Senator **Glenn**. I think it was in Indonesia and, I think, also in Thailand, we were there talking about commerce from America and so on and Japanese competition. One of the people, I remember very, very well, said that you use a different approach than the Japanese use; where the American is a salesman, he will come in wanting to set an appointment for somebody to visit later on, but the Japanese will show up in their minibus with a whole gaggle of people and they will have the salesman, the design change man, the financing man at reduced terms from what anybody else can give. They will also offer free training for service personnel, a long-term thing, as part of the whole works.

In other words, it is a whole pattern designed more for the Third World, and for that kind of development than Americans normally put forward to Third World nations or to ASEAN countries.

How much is this a factor? Are we really willing in American business to get out and compete on that kind of basis? That is my question.

Mr. **Beré**. I think it is real. I think you go back to what Mr. Galvin said. Behind that there has been a macro decision on marketing. We do not give the authority to our salesmen to make the judgments you have just listed, in that it may have other impacts within the corporation. I suspect, if we want to compete long term, we will have to find a technique to do it in that sense.

Senator **Glenn**. Do we need changes in attitude in American business to make that happen, or does it need some Government change here to give that attitude to business? Is it something business has to develop within its own to get out there and compete?

Mr. **Beré**. Business has a big job on its own, a tremendous job to change it. We are very much like our Government in many respects. We have a great tendency to look at Europe, to look to the Middle East, all of which is important; and yet one of the largest markets available to this world is the Asian Pacific Basin, and we are uncomfortable there. We have much to do.

Mr. **Galvin**. The American private enterpriser clearly always has to do better. But I respectfully suggest, sir, that maybe if we went in with one or two people, we may have even more effectively presented our product and terms, et cetera.

And what we finally find so often in this obviously fictitious—we do not have an exact example—but profiled circumstance is that we discover that the Japanese have behind them a trade term, length of payment, interest payment, subsidization, or they have had a side discussion between the Japanese Government and the local government that says, now, of course, we expect to get this business because that will be determinative with regard to something else we are doing over here. And you would not permit our Government to do that. You would not want us to give that kind of support.

So there is all kinds of secondary effect situations going on out there, sir. So it is not just a simple, are we trying hard enough?

Senator **Glenn**. Yes, That is where we could not even get trading company legislation through, which I thought was important. I backed it, and I worked very closely on that. We could not even get that through because of antitrust considerations basically here at home.

Incidentally, how much advantage do you think trading company legislation would give us? It would help some of the smaller companies, but would it help companies the size of your two businesses?

Mr. **Beré**. I think it will. But I think you hit the centerpiece of the legislation; namely, we must find mechanisms for the small person who does not have the time and/or the resources to do this. And, in essence, they could act in concert through a trading organization. I think it has great value and more value to the great strength of this country, the entrepreneur that is emerging.

Senator **Glenn**. It had two aspects. One was help the small company. And it also permitted financial institutions to be a part of this process, which is a very big thing.

In your statement you mentioned the importance of Ex-Im financing. Would you favor a trading company concept with financial institution participation, in spite of all of the antitrust considerations of that that came up when we had that legislation before us in addition to Ex-Im full financing?

Mr. **Galvin**. I would, sir.

Mr. **Beré**. I would, too.

Senator **Glenn**. OK. I have one last question. In your observation of the Japanese scene, how much of the Japanese technology that they take and go ahead with is original Japanese R. & D. work as opposed to what they have gotten from us and then go ahead and try to improve on?

Mr. **Beré**. My experience has been that they are the finest innovators in the world, in contrast to basic research and technology. In the technology that we have transmitted to them, I have been impressed how they have taken it beyond to commercialize it and finding excellent ways of making it.

And the only historical perspective I have, I have always been impressed with the amount of research going on in Great Britain and the small amount of commercialization. And if I were to lean without hard research, I would say they are much better innovators than we are, but we are better researchers.

Senator GLENN. But is that picture changing? They are beginning to put more into basic research. Look at some of their computer chip capacity that they are developing on their own now, ahead of some of the things that we are doing in this country, I believe, correct me if I am wrong.

Mr. GALVIN. First off, I generally agree with Jim. I think the Japanese acknowledge that they were obligated to go out and seek considerable basic technology in the decades after the war, to their remarkable credit, they are just a great group of people. They have a much less "not invented here" attitude as a country and as an individual person than the Americans have. As a consequence, they are quite willing to learn from each other and from anybody. We have to do more of that.

Today, the Japanese are showing substantial innovation. They are obviously training very smart people. They are extremely intelligent and able implementers. So I look upon the Japanese as basically equivalent.

Part of the reason that we do not see them having yet evidenced the creativity that might be looked for, for example, in a microprocessor is that that is not a large volume business yet. It is the memories that are. I am using a simile from the semiconductor business. They select the effort for researching and developing around the high-volume products. They are now beginning to expand back into the more sophisticated and determinative products like microprocessors.

They have the competence. They borrowed for a while; they did not worry about "not invented here." They are now showing their native competence, which is great and admirable. To me they ought to be able to stand on their own two feet and start playing the game sort of the way the rest of the enterprise world does.

Senator GLENN. I was handed a moment ago an editorial from today's Washington Post, which I have not yet read. This concerns the auto industry, which is not quite the area we are talking about this morning, but it is of interest and along the same line.

Let me read a part of it: "Why do Japanese cars keep taking the larger share of American sales even though the American companies now produce small cars of high efficiency? The House Trade Subcommittee published last month a study by the Congressional Budget Office, analyzing the difference in prices. Last year, the total compensation of an auto worker in this country averaged $17.55 compared with the $7.74 in Japan. But the truly astonishing disparity is in labor productivity. The American manufacturers use about 200 hours of labor to build a subcompact car, the CBO calculated, while the Japanese use 111 hours. The result is a price differential of about $2,000 in a subcompact car, two-thirds of it in the hourly cost of labor and one-third in productivity."

That is a little different area than we are discussing this morning. Do you feel that disparity in productivity and costs, that pattern, would not be considered comparable in the high-tech industries that we are discussing; is that correct?

Mr. **Galvin**. That is correct. It may exist in a few other places, but not in the high-technology industries.

Senator **Glenn**. Gentlemen, you have been very patient, and I appreciate your staying here.

Do any staff members have a question? Carl, what about you?

Mr. **Ford**. No questions.

Senator **Glenn**. If there are no other staff questions, this hearing will stand in recess subject to the call of the chairman.

[Whereupon, at 12:25 p.m., the committee recessed, to reconvene at 2 p.m., the same day.]

Afternoon Session

The **Chairman** [presiding]. I want to welcome this afternoon our distinguished guests. This afternoon we will be continuing a hearing begun this morning on United States-Japan trade relations. We heard from private industry witnesses this morning and will hear from Government witnesses this afternoon. We have heard a large number of examples of areas where Japan is successful in erecting barriers to American goods, both manufactured and agricultural. This afternoon we will explore U.S. Government efforts to reduce and eventually eliminate those barriers.

We look forward to hearing first from Mr. David Macdonald, U.S. deputy trade representative, who will give us an overview of the situation and discuss ongoing negotiations with the Japanese on trade issues. Mr. Seeley Lodwick, Under Secretary of Agriculture for international affairs and commodity programs, will then discuss U.S. efforts to expand American sales of farm goods.

I would like to announce that I will have to leave at 3 o'clock. If we have not finished the hearing by then, Senator Hayakawa has thoughtfully agreed to join us at that time and take up the chair. We will try to move right along. Thank you very much.

Let us start with you, Ambassador Macdonald.

STATEMENT OF HON. DAVID R. MACDONALD, DEPUTY U.S. TRADE REPRESENTATIVE

Ambassador **Macdonald**. Thank you very much, Mr. Chairman. As you requested, I have a complete statement, which I will file with the committee as part of these hearings.

The **Chairman**. Your complete statement will be incorporated in the record.

Ambassador **Macdonald**. I have about a 10-page double-spaced summary, if you can put up with that.

The economic relationship between the United States and Japan is one of the major underpinnings of the world trading system today. After Canada, Japan is our single most important trading partner. But while our trade has brought us many benefits, both as producers and consumers, it has also become a source of friction between us. That friction has arisen, in part, because of the frustration that many

Americans, especially American business leaders, have felt at the impediments that have kept the Japanese marketplace relatively closed by comparison to our economy to foreign goods, services, and investment.

This frustration has created a race against time for Japan, although the Japanese may not be totally aware of it. While Japan has undertaken numerous trade liberalizing reforms and has, in fact, completed several, the pace of Japan's progress appears to lag behind the advance of anti-import legislation in this country and the anti-import actions of Japan's other trading partners.

Nevertheless, we have made some progress with Japan, albeit slow in pace. And I would like to take the opportunity to review this progress with you today.

The concerted efforts of the administration and its predecessors over the past decade and more to induce Japan to dismantle its network of obstacles to foreign products, services, and investment have brought about slow but steady results.

The Japanese economy is now more open than it ever has been. Much of the progress that has occurred has taken place during the past year, which it is our sincere hope will prove to have been a watershed year in terms of finally putting Japan firmly and fully on the path of real liberalization of her markets.

But if that is to be the case, the momentum for open markets that has begun in Japan must be continued and increased. It must reach down from the verbal commitments of top political leaders into the practical actions of the bureaucracy, customs officials, standards inspectors, and others in the Japanese Government, whose acts can impede or facilitate the flow of imported goods.

What is most hopeful in our recent trade discussions with the Japanese is the realization among Japan's top leadership that changes are necessary. The realization indeed was given utterance in the important statement issued by Prime Minister Suzuki on the occasion of Japan's announcement of its latest package of trade initiatives last May 28.

The Prime Minister made a direct appeal to his people and, particularly, to the government officials and corporate decisionmakers whose attitudes and actions will be all important in this respect, to extend a welcoming hand to foreign goods and investment. Such a statement is an unusual step for a nation's leader to take. What remains to be seen is whether the prime minister's appeal translates into change in the attitudes and actions of his countrymen.

Mr. Chairman, if I may, let me review for the committee what our objectives in trade policy toward Japan have been, what progress we have made in achieving them, and what remains on our agenda.

The United States has four principal objectives in its trade policy with Japan: first, equivalently free access to the Japanese economy in goods, services, and investment; second, a balanced trade composition between manufactured goods and raw materials; third, the avoidance of protectionist measures by both countries; and fourth, inducing the Japanese to exercise leadership in free trade commensurate with the Japanese economic strength.

As I suggested in my introductory remarks, securing access to the Japanese economy for American goods, services, and investment on an equivalent basis to that which the Japanese enjoy in the U.S.

economy has been the keystone of our trade policy. Over the past year, we have pursued our trade policy objectives with Japan through a dialog in which we have sought removal of many Japanese impediments to our exports. In response to these efforts, the Government of Japan has undertaken a series of trade liberalizing measures in November 1981 and January and May 1982.

After the publication of the May package, Ambassador Brock announced publicly that we were requesting the Japanese Government to work with the U.S. Government for the purpose of initiating a continuing program designed to resolve difficulties that may arise in implementing the package. In the first week of August, a subgroup of United States-Japan Trade Subcommittee inaugurated a series of visits to Tokyo. Those visits will probably be carried out monthly.

The August visit revealed substantial progress in some areas, such as customs procedures, and the easing of access to the insurance market. A number of standards issues appear to be on the track for early resolution. The promised system of business consultants has indeed been set up and is in operation. And the Japanese Fair Trade Commission—that is their antitrust enforcement body—has begun to take a more assertive role both in beginning its promised monitoring of the distribution of foreign goods and in proclaiming its opposition to legislation expanding exemptions to Japan's antimonopoly laws, specifically regarding cartels.

These are positive steps representing tangible improvements. However, the May package has produced no major new opening of the Japanese market, nor has completely resolved any major problem. While the Japanese are moving in the right direction, I am afraid they are not moving far enough fast enough.

From our perspective, at least four major issues are still outstanding involving impediments to U.S. access in areas where there is very significant trade potential and where our firms are highly competitive.

The first issue is that of the remaining onerous tariffs. I should hasten to add that these tariffs are entirely legal. Nevertheless, emphasis will continue to be placed by us on securing reductions in Japan's tariffs, as this is an area in which the Japanese Government has strong and direct control. In our monthly visits to Japan, we will continue to press for significant tariff reductions on a wide range of products not addressed in the May 28 package.

The second issue that was barely addressed in the May package is that of agricultural import barriers. While we recognize that Japan is our largest single country market for agricultural exports, it is our belief that Japan would purchase even more of our competitive agricultural products if it eliminated its quotas, tariff quotas, high duty levels, and other nontariff barriers to agricultural trade. Bilateral agricultural consultations with the Japanese are now scheduled. We intend at that time to ask the Japanese what action they plan to take on the remaining quota items as well as to discuss general agricultural trade estimates.

As you know, the three quota items that are of the most concern to us are those on beef, oranges, and citrus juices. Import levels on these products were negotiated during the Tokyo round of Multilateral Trade Negotiations, and those agreements last until March 31, 1984.

As part of the agreement, it was decided that negotiations on future levels of imports would not begin until the second half of the Japanese fiscal year 1982. So therefore, we have the first session of those negotiations scheduled for October 20. The United States will press for the phased elimination of trade barriers on these products during that meeting.

The third major impediment to U.S. firms is that of a state monopoly, the Japan Tobacco and Salt Monopoly. Manufactured tobacco products are an industry sector in which the United States is extremely competitive. U.S. industry estimates of our potential share of the Japanese market in the absence of any barriers range upward from 25 to 50 percent. Since each percent of market share is roughly equal to $50 million in sales, the potential value of increased U.S. exports in this sector is significant.

The combination of significant U.S. trade potential being frustrated by barriers that are, in essence, directly controlled by the Government of Japan justifies this issue as a significant place on our list of priorities. We have also been conducting intense bilateral negotiations on tobacco and have another such set of negotiations scheduled in the near future.

A final major issue not adequately addressed in the May package is that of Japanese business practices that make it difficult for U.S. exporters to penetrate the Japanese market. These are particularly crippling in the area of high-technology products. American high-technology companies have long protected that a pattern exists to limit or deny access to Japanese markets to foreign firms at the leading edge of the technology until Japanese firms have become firmly established in the technology and possessed a world-scale production capacity.

Foreign firms with a significant lead in product or process technology have, in many instances, either been denied permission to manufacture in Japan or required to transfer their technology or to accept Japanese joint venture partners. The effect in each case has been to ensure that the foreign firms are unable to achieve a significant share of the Japanese market at its inception and, hence, are denied the competitive advantage that accrues to the early market leader.

In response to these problems, and in view of the vital importance of high-technology industries to both the United States and Japan, it was decided in April to form the United States-Japan High-Technology Work Group. The group met in July and August and has addressed issues such as transfer of technology, market access, trade distortions in high-technology goods and services, and joint research and development. It will develop a series of recommendations to be made to each government in October 1982 and a work program will also be developed.

When the best efforts of our bilateral discussions fail to overcome the differences between our two positions, this administration is determined that the United States should avail itself of GATT remedies. We have recently taken such action in one area and informed the Japanese of our decision to take it in another; and we are making the preparations necessary to do so in a number of other areas of unresolved difficulties.

The first case, where we have already commenced our complaint under the Standards Code in the GATT, is on the issue of Japanese certification of manufacturing plants located outside of Japan. The case we have picked to exemplify this issue is softball bats. Since this was first raised in July 1981, little progress has been made. The refusal by Japanese officials to permit U.S. suppliers direct access to the required safety mark in violation, in our view, of the Standards Code.

Another area where we have informed Japan of our intention to move into formal dispute settlement is that of leather. This case involves a quota system on leather and also the means of allocating licenses to license holders in Japan. As of this date, the United States has informed Japan of its intention to reopen its complaint under article XXIII of the GATT in the absence of an acceptable agreement.

Mr. Chairman, in your invitation to me to testify before this committee, you also requested that I address the issue of the dollar-yen relationship. Criticisms have been raised that Japan maintains an undervalued yen. The yen has depreciated against the dollar—in fact, by quite a bit, 30 to 40 percent—as have all major currencies. And certainly, this depreciation has enhanced the price competitiveness of Japanese exports.

There are a number of practical restraints that the Japanese impose on capital flows, both by their own citizens and by foreigners. This fact seriously weakens the argument that the value of the yen is not being maintained at an artificial level. Nevertheless, recent Japanese exchange market intervention operations and interest rate increases have been designed to strengthen, not weaken, the yen.

Recent U.S. trade frictions with Japan have been caused by Japanese barriers to foreign access to the Japanese economy, not by exchange rate fluctuations. Nevertheless, as long as the Japanese capital and goods markets are perceived to be relatively restricted, the perception will also remain that the value of the yen is an artificially manipulated currency. It will continue to be a prime U.S. policy objective, therefore, to bring about liberalization of Japan's capital markets, with the idea that the yen then would seek its own level against other currencies.

In my testimony, I have described for the committee the administration's position with respect to various pieces of legislation currently pending before Congress. In conclusion, Mr. Chairman, if we are to maintain a new partnership with Japan, the dynamic of that partnership must be one of a common consideration of our mutual interests in preserving and expanding free access to each other's markets.

The chronic pattern of our past relationship, with the United States in the unwanted aggressive role of having to demand time and again Japanese market openings and the Japanese responding with reluctant and partial openings, seen as concessions, has caused irritation and an erosion of goodwill on both sides.

The time is ripe for a new beginning, for the emergence of an era in which Japan joins with the United States in taking a new international trading system. But like any opportunity that is ripe, it must be grasped quickly before it deteriorates in a mass of recrimination, if not retaliation. We are not yet sure that the Japanese are prepared to move with the necessary speed. Thank you, Mr. Chairman.

[Ambassador Macdonald's prepared statement follows:]

Prepared Statement of Ambassador David R. Macdonald

Mr. Chairman and members of the Committee: I welcome the opportunity to testify before this Committee on United States-Japan economic relations. That economic relationship is one of the major underpinnings of the world trading system today. After Canada, Japan is our single most important trading partner. Last year our two economies exchanged nearly $59 billion in goods and services. The evidence of our vast trade is manifest in nearly all areas of our two societies. Japan takes one-tenth of all American exports, while we consume a fourth of all Japanese exports. But, while our trade has brought us many benefits, both as producers and consumers, it has also become a source of friction between us. That friction has arisen in part because of the large surplus of Japanese exports to this country over our exports to Japan, a trade deficit in 1981 on the order of $15.8 billion. More important as a source of that friction, however, has been the frustration that many Americans, especially American business leaders, have felt at the impediments that have kept the Japanese marketplace relatively closed, by comparison to our economy, to foreign, including American, goods, services, and investment.

The concerted efforts of the Administration and its predecessors over the past decade and more to induce Japan to dismantle its network of obstacles to foreign products, services, and investment have brought about slow but steady results. The Japanese economy is now more open than it has ever been. Much of the progress that has occurred has taken place during the past year, which, it is our sincere hope, will prove to have been a watershed year in terms of finally putting Japan firmly and fully on the path of real liberalization of her markets. But if that is to be the case, the momentum for open markets that has begun in Japan must be continued and intensified. It must reach down from the verbal commitments of top leaders into the practical actions of customs officials, standards inspectors, and others in the Japanese Government and bureaucracy whose acts can impede or facilitate the flow of imported goods. It must also reach inward from the Japanese border into the Japanese boardroom so that the question of whether Japanese corporations purchase foreign manufactured goods is decided on the basis not of economic nationalism, but that of price, quality, and the other elements of real economic competitiveness. If we are to be able to move the Japanese economy into its rightful place in the world marketplace of free trade, then these changes must occur. What is most hopeful in our recent trade discussions with the Japanese is the apparent realization among Japan's top leadership that such changes are necessary. That realization, indeed, was given utterance in the important statement issued by Prime Minister Suzuki on the occasion of Japan's announcement of its latest package of trade initiatives last May 28.

The Prime Minister made a direct appeal to his people, and particularly to the government officials and corporate decisionmakers whose attitudes and actions will be all-important in this respect, to extend a welcoming hand to foreign goods and investment. Such a statement is, needless to say, an unusual step for a nation's leader to take. What remains to be seen, and what will be the true test of whether a new momentum toward freeing the Japanese marketplace to foreign competition has indeed finally gotten underway, is whether the Prime Minister's appeal translates into real change in the attitudes and actions of his countrymen.

For our part, the Administration has been exerting our utmost efforts to induce Japan to take those measures necessary to open her markets to our exports and our investment.

Mr. Chairman, if I may, let me now review for the Committee what our objectives in trade policy toward Japan have been, what progress we have made in achieving them, and what remains on our agenda.

OBJECTIVES OF U.S. TRADE POLICY VIS-A-VIS JAPAN

The United States has four principal objectives in its trade policy with Japan: equivalently free access to the Japanese economy in goods, services, and investment; balanced trade composition; avoidance of protectionist measures; and inducing Japanese leadership in free trade commensurate with Japanese economic strengths.

As I suggested in my introductory remarks and will detail later in my testimony, securing unfettered access to the Japanese economy for American goods, services, and investment on an equivalent basis to that which the Japanese envoy in the U.S. economy has been the keystone of our trade policy with Japan.

The second U.S. trade objective is deeply interwoven with the first. The United States seeks access for all of its products; but with some exceptions, access has been more difficult to achieve for one particular group of our products, namely manufactured goods. We recognize that resource-poor Japan will be a net importer in raw materials and net exporter of finished goods.

Nevertheless, the proportion of manufactured goods among Japan's total imports has continued to be among the lowest in the industrialized world at the same time as Japan's exports of manufactures have become a dominant force in the marketplaces of all her trading partners, including the United States. In part, the disparity arises not from the economics of competitive advantage, but from government policies and corporate practices that have the effect of excluding foreign competitors from, or imposing significant handicaps on their participation in, the Japanese market. The removal of such impediments to U.S. manufactured exports is a high priority U.S. trade policy objective. But it is one that runs head on into some high priority Japanese policies in the areas of industrial policy, industry targeting, as well as into private corporate practices deeply rooted in the structure of the Japanese business system. U.S. progress in the area has so far been limited, but is likely to be vital since international competitiveness in such strategic sectors as high technology manifestly depends on access to, and participation in, the major markets in such sectors, of which Japan is second only to the United States.

A third major U.S. objective is the continued ability to maintain our own commitment to free trade in the face of strong and building pressures from protectionism. We must convince Japan of the strength of those pressures, and of the necessity to take the kinds of actions that will obviate or diminish them. Clearly that is equivalent to convincing Japan of the urgent necessity for further market openings, indeed for real openings with significant trade potential in sectors where U.S. firms are strongly competitive. Japan cannot continue to reap the rewards of free trade without having to share its risks. Because if Japan attempts to continue this strategy, it is clear that trade will no longer be free. Japan must be persuaded to act to help head off this threat to the free trading system; to act in a positive and constructive manner to remedy its own protectionism and exclusiveness, not simply to protest American protectionist responses.

Which leads to the fourth U.S. objective. Being the world's second industrial power carries with it a share of both the burden as well as the glory of the leader's role in free trade. To date, Japan has shunned that role. But no country benefits more from free trade than does Japan. Without access to foreign markets, particularly that of the United States, Japan could not have become the industrial giant she is today. As an industrial giant not only are the excuses of the past for adherence to protectionist policies and practices no longer valid, but Japan is called upon for much more. She must become a leader in the efforts to maintain and to expand the scope of free trade, starting at home.

CURRENT BACKGROUND ON ACHIEVING OUR OBJECTIVES

Over the past year we have pursued our trade policy objectives with Japan through an intensive dialogue in which we have sought the removal of many impediments to our exports to Japan. In response to our efforts, the Government of Japan undertook a series of unilateral trade liberalizing measures in November 1981 and January and May 1982.

After the publication of the May package, Ambassador Brock announced publicly that we were requesting that the Japanese Government work with the U.S. Government for the purpose of initiating a continuing program designed to resolve difficulties that may arise in implementing the package. In the first week of August, a sub-group of the United States-Japan Trade Subcommittee inaugurated a series of visits to Tokyo. Those visits, which will be carried out regularly, probably monthly, have the following objectives:

To clarify the Japanese Government's measures and plans for implementation;

To bring to the attention of the appropriate Japanese Government Ministries and/or the Office of Trade Ombudsman and seek resolution of specific access problems experienced by American businessmen;

To sustain momentum toward a more open Japanese economy by addressing issues unresolved or omitted from the package.

During that visit the U.S. delegation received the Government of Japan's responses to an extensive list of questions prepared by the TPSC Subcommittee on Japan. Upon the delegation's return to Washington, the Subcommittee analyzed those responses. That analysis revealed substantial progress in such areas as customs procedures and easing of access to the insurance market. A number of standards issues appear to be on the track for early resolution. The promised system of business consultants has indeed been set up and is in operation. And the Japan Fair Trade Commission has begun to take a more assertive role, both in beginning its promised monitoring of the distribution of foreign goods, and in proclaiming its opposition to legislation expanding exemptions to Japan's antimonopoly laws, specifically regarding cartels.

These are positive steps, representing tangible improvements. However, the May package has produced no major new opening of the Japanese market, nor completely resolved any major problem. While the Japanese are moving in the right direction, they are not moving far enough, fast enough.

From our perspective, at least four major issues are outstanding, involving impediments to U.S. access in areas where there is very significant trade potential and where our firms are highly competitive. Let me now turn to some of the more important of these outstanding issues.

One such issue is that of the remaining onerous tariffs not addressed in the May 28 package. Emphasis will continue to be placed on tariffs, as this is an area in which the Japanese Government has strong and direct control. In our monthly visits to Japan we will continue to press for significant tariff reductions on wood and wood products, paper and paper products, unwrought magnesium, refined copper, electrodialized whey, chocolate confectionery, feather and down bedding, harvesting equipment, manufactured tobacco products, leather, computers and computer parts, cash registers, photographic enlargers, photographic film, and other products not addressed in the May 28 package.

A second outstanding issue that was barely addressed in the May package is that of the agricultural import barriers.

While we recognize that Japan is our largest single country market for agricultural exports, it is our belief that Japan would purchase even more of our competitive agricultural products if it eliminated its import barriers to such trade. These barriers include quotas, tariff quotas, high duty levels, and other nontariff trade barriers, and tend to be on products that are processed or semiprocessed.

Over the past 2 years, we have held numerous meetings with the Japanese to discuss trade relations and their protectionist barriers. U.S. officials participated in bilateral discussions with the Japanese last April to discuss specifically the GATT consistency of their agricultural and marine quotas, with a view toward eliminating them. Since the Japanese could not provide us with any information at that time which showed that these quotas were acceptable under GATT rules, we asked that they be eliminated.

Japan maintains quotas on 22 agricultural and marine item categories, which cover over 100 products. On May 28, just prior to the Versailles summit, the Japanese announced tariff reductions for 17 items, and an expansion of the quota on 3 items: Canned pineapples, prepared and preserved pork, and hi-test molasses. We have recently received information from the Japanese providing the details on most of these proposed changes, but have not yet received any information as to the action they intend to take on prepared and preserved pork. Of the items for which we feel we have the greatest export potential, action was taken on three in which we have the least market share—only 3 percent—and which had an export value of only $900,000 last year. On a quantity basis, U.S. exports of hi-test molasses were less than one metric ton last year, and the U.S. market share for canned pineapple has been about 3 percent. Expansion of the quota for prepared and preserved pork will primarily benefit Denmark, as that country is traditionally the principal supplier, with our share of imports generally in the area of only 2.5 percent.

Bilateral agricultural consultations with the Japanese are now scheduled for September 30 and October 1. At that time we intend to ask the Japanese what action they plan to take on the remaining quota items as well as discuss general agricultural trade estimates.

As you know, the three quota items that are of the most concern to us are those on beef, oranges, and citrus juices. Import levels on these products were negotiated during the Toyko Round of Multilateral Trade Negotiations and are to be in effect until March 31, 1984. As part of the agreement, it was decided that negotiations on the future levels of such imports following the expiration of the agreement, would begin in the second half of the Japanese fiscal year 1982. The first session of these negotiations is now scheduled to be held October 20–22. The United States will press for the elimination of trade barriers on these products during the meeting.

A third major impediment to U.S. firms is that of a state monopoly, the Japan Tobacco and Salt Public Monopoly (JTS).

Manufactured tobacco products are an industry sector in which the United States is extremely competitive. U.S. industry estimates of our potential share of the Japanese market in the absence of any barriers range upwards from 25 to 50 percent. Since each percent of market share is roughly equal to $50 million, the potential value of increased U.S. exports in this sector is significant. The combination of significant U.S. trade potential being frustrated by barriers that are, in essence, directly controlled by the Government of Japan, justifies according to this issue a significant place on our list of priorities. Intensive bilateral discussions during the past year resulted in a Japanese commitment in the May 28 package to begin a phased expansion in the number of retailers handling imported tobacco products. The number of retailers will rise from the 1982 level of 20,000 to 70,000 by March 31, 1983, and will include all retailers by March 31, 1986. The Japanese also proposed to accelerate the formation of a bilateral study group on manufactured tobacco imports into Japan. The group, which will hold its first meeting in October, will discuss the tariff, as well as restrictions on advertising, the price differential between imported and domestic cigarettes, the pricing formula, and the retailers' profit margin.

In December 1980, the United States and Japan signed an agreement detailing U.S. access to the vast market for procurement by Nippon Telegraph and Telephone Public Corporation (NTT). NTT has taken a wide variety of actions to facilitate U.S. firms' access to its procurement process during the first half of the initial agreement period. However, a substantial increase of U.S. sales, especially of sophisticated technology such as central office exchanges, has yet to take place. Such increased sales are very important both for establishing in fact access to the high tech market in Japan, and for maintaining a visible U.S. presence in the Japanese high tech market in industrial electronics. We will continue to reiterate to NTT U.S. interest in maintaining and renewing the agreement and the need for actual procurement in order to justify our commitment to the agreement.

A final major issue not adequately addressed in the May package is that of Japanese business practices that make it difficult for U.S. exporters to penetrate the Japanese market. These are particularly crippling in the area of high technology products.

American high technology companies have long protested that a pattern exists to limit or deny access to the Japanese market to foreign firms at the leading edge of the technology until Japanese firms have become firmly established in the technology and possessed of world scale production capacity and very low cost positions. These actions can make market entry by a foreign competitor with the prospect of attaining a significant market share virtually impossible. Foreign firms with a significant lead in product or process technology have in many instances either been denied permission to manufacture in Japan or required to transfer their technology and/or to accept Japanese joint venture partners. The effect, in each case, has been to ensure that the foreign firms are unable to achieve a significant share of the Japanese market at its inception and hence are denied the competitive advantage that accrues to the early market leader.

In response to these problems, and in view of the vital importance of high technology industries to both the United States and Japan, it was decided in April 1982 to form the United States-Japan High Technology Work Group. The Group met in July and August and has addressed issues such as transfer of technology, market access, trade distortions in high technology goods and services, and joint research and development. The initial three industries being addressed by this group are semiconductors, computers, and telecommunications. A number of other important industries will be analysed in the future work of the group. The group will develop a series of recommendations to be made to the respective governments in October 1982, and a work program will be developed to address issues that need a longer timeframe for adequate exploration.

WHEN BILATERAL DIALOGUE FAILS

When the best efforts of our bilateral discussions fail to overcome the differences between our two positions and to resolve outstanding issues, this Administration has determined that the United States should avail itself of the remedies afforded by the multilateral institutions for dispute settlement of the GATT and the various codes negotiated under the Multilateral Trade Negotiations. We have recently taken such action in one area, informed the Japanese of our decision to take it in another, and are making the preparations necessary to do so in a number of other areas of unresolved differences.

The first case, where we have already taken our complaint to a multilateral forum, is on the issue of Japanese certification of manufacturing plants located outside Japan. The case we have picked to exemplify this issue is softball bats. Since the issue of direct access for U.S. softball bat suppliers to Japanese Government and private certification systems, under conditions no less favorable than those provided to Japanese suppliers, was first raised in July 1981, little progress has been made. Thus far, both the January and May packages have contained measures announcing the fact that the practices of Japanese private sporting associations have been "improved." Actual improvement, however, has not come about through the actions of the Government of Japan. but through continued persistence by the U.S. Government and U.S. industry. The refusal by Japanese officials to permit U.S. suppliers direct access to the required "S" mark is in violation of the Standards Code. As such, the United States requested bilateral consultations with the Japanese under Article 14.1 of the Standards Code in August 1982, and has submitted a written representation to the Japanese under Code Article 14.2.

Another area in which we have informed Japan of our intention to move into formal, multilateral dispute settlement is that of leather. Under an understanding reached between the United States and Japan in February 1979, Japan established a new leather quota, part of which was to be allocated to the United States for a 3-year period beginning in April 1979. The intent of the agreement was to expand opportunities for U.S. tanners to market leather in Japan. However, under the understanding there has not taken place a significant increase in sales of U.S. leather to Japan. Hence, despite intensive bilateral negotiations over the past year, no new agreement acceptable to the United States had been achieved as of August 1982, and as of that date, the United States had informed Japan of its intention to reopen its complaint under Article XXIII of the GATT in the absence of an acceptable proposal.

The Administration believes that cooperative solutions of outstanding issues achieved by bilateral resolution is the preferable approach. But we are also prepared, as the above instances attest, to exercise our legitimate rights under multilateral agreements. And we are constantly assessing the grounds we have on all outstanding issues, including those in areas not addressed explicitly here, to avail ourselves of those rights.

ON THE YEN/DOLLAR RELATIONSHIP

Mr. Chairman, in your invitation to me to testify before this Committee you requested that I also address the issue of the dollar/yen relationship. Criticisms have been raised that Japan maintains an undervalued yen. The yen has depreciated against the dollar, as have all major currencies, and certainly this depreciation has enhanced the price competitiveness of Japanese exports. There are a number of practical restraints that the Japanese impose on capital flows, both by their own citizens and by foreigners. This fact seriously weakens the argument that the value of the yen reflects market forces, and is not being maintained at an artificial level. In fact, recent Japanese exchange market intervention operations and interest rate increases have been designed to strengthen, not weaken the yen.

Fluctuations in the exchange value between the Japanese yen and the U.S. dollar do have an influence, over time, on the flow of goods and services between the United States and Japan. A weak yen causes Japanese products to be cheaper and more competitive internationally than a strong yen. But recent U.S. trade frictions with Japan have been caused by Japanese barriers to foreign access to the Japanese economy, not by exchange rate fluctuations. To be sure, Japanese barriers have a bearing on the level of the exchange rate to the extent that they prevent imports and financial transactions that would otherwise take place. Nevertheless, as long as Japanese capital and goods markets are perceived to be relatively restricted, the perception that the value of the yen is artificially manipulated will remain. It will continue to be an important U.S. policy objective to bring about increased liberalization of Japan's capital markets.

PENDING LEGISLATION AFFECTING UNITED STATES-JAPAN TRADE

A number of bills currently pending before the Congress have potential consequences for our trade relationship with Japan. I would like here to comment specifically on several of these bills concerning reciprocity, tariff negotiating authority, and local content requirements.

As Ambassador Brock has testified before, reciprocity as a principle embodied in the GATT and in our trade laws, and increased market access as a goal of any free trade policy, is welcomed by the Administration. However, we must not enact laws which will force U.S. trade policy to require bilateral, sectoral, or product-by-product reciprocity. In our view, the preferable method for achieving expanded market access should always be to seek liberalization of foreign markets rather than to raise restrictive barriers of its own. Even given the problems we face with Japan, it would be dangerous to seek a bilateral balance of trade with them as our standard of fairness. If we were to do so, other countries, such as the EC, with which we maintain trade surpluses would certainly pursue the same policy with regard to the U.S. Reciprocity in areas not adequately covered by the GATT, such as services and investment, could be a useful tool.

As the Chairman is aware, the Administration is seeking an extension of the Section 124 tariff reduction authority which expired in January of this year. Such authority would assist our efforts in obtaining increased market access for U.S. goods to Japan and the world.

As I stated in my testimony on March 2, before the House Subcommittee on Commerce, Transportation, and Tourism, the Administration opposes any local content legislation, both on trade policy and economic grounds. While recognizing that the purpose of such legislation is to assist the American automobile industry and create jobs, we believe the methods set forth would raise both legal and policy problems in relation to our commitments to the GATT and other international agreements, and could have perverse effects on U.S. employment and economic well-being.

Local content legislation would violate the prohibition in Article XI of the GATT against "restrictions other than taxes or other charges . . . on the importation of any product of" another contracting party. Presumably directed toward action taken under exception to Article XI (none of which would be applicable to the proposed quotas on Japanese automobiles), Article XIII of the GATT adds that no restriction should be applied to the importation of any product of another contracting party unless importation of the like product from all third countries is similarly restricted. Any such legislation would undoubtedly lead to complaints under the GATT dispute settlement procedures. If the United States did not negotiate a settlement of such complaints by compensating the other parties for lost trade opportunities, as a last resort, the GATT envisages that the contracting parties, acting jointly, could authorize the complaining parties to depart from their obligations in order to retaliate against the United States.

Even more important than the specific problems just discussed is the effect that enactment of such legislation would have on the efforts of the United States to persuade other countries, particularly Japan, to open their markets more fully to U.S. exports. The United States has, with other nations, called for a GATT Ministerial level meeting in November to launch initiatives aimed at opening and improving the trading system to the mutual benefit of all trading nations. Not only would these efforts be frustrated by the adverse international reactions to such a bill, but emulation of our action and retaliation against it would likely result in a critically weakened trading system, less world trade, and fewer jobs both in the United States and abroad.

CONCLUDING REMARKS

Earlier in my remarks I noted that the Administration has committed itself to a program of intensive dialogue with Japan to secure unfettered access to Japanese markets for U.S. goods, services, and investment. We have as part of that dialogue instituted a regular, nearly monthly, series of working level visits to Japan to pursue this objective. And we have also scheduled an extensive array of bilateral discussions ranging over a wide spectrum of trade issues over the next several months. These will include bilateral trade discussions in September and October, and bilateral discussions on citrus and beef, and a meeting of the Tobacco Study Group, both scheduled for October.

The goal of these meetings is to bring about the forging of a new partnership between Japan and the United States to implement the market opening measures taken to date as well as to undertake the opening of sectors which remain relatively closed.

In this new partnership, the dynamic would be one of a common consideration of our mutual interests in preserving and expanding free access to each others' markets. The chronic pattern of our past relationship, with the United States in the unwanted aggressive role of having to demand, time and again, Japanese market openings, and the Japanese responding with reluctant and partial openings, seen as "concessions," has caused irritation and an erosion of good will on both sides. The time is ripe for a new beginning, for the emergence of an era in which Japan joins with the United States in taking a new and positive role as a leader in maintaining an open international trading system.

The **Chairman.** I want to thank you very much. I would like to comment on two aspects of your testimony, Ambassador Macdonald. I thought it was important that you did quote the Japanese Prime Minister, Mr. Suzuki, when he did, after his most recent effort to remove trade restrictions, appeal to his own people. I hope they were listening to him.

He was wise when he said that the Japanese should extend a welcoming hand to foreign goods and investment. I also appreciated your own reiteration and statement to Japan that Japan must be persuaded to act to head off this threat to the free trading system, to act in a positive and constructive manner to remedy its own protectionism and exclusivity, not simply to protest American protectionist responses.

I would like to talk directly to my friends in Japan, and I do consider myself a friend of Japan. We have the Japanese media here, and I will take the opportunity to talk through them directly to our friends in Japan. I have considered myself a supporter of free flowing international trade since the midfifties, when Dwight Eisenhower asked if I would help found the Committee for National Trade Policy. I was head of the legislative committee for the committee.

I was the head of a highly protected company and industry. The tariffs in the photographic industry were 40 percent. And every time I would come before the Finance Committee in the Senate and the Ways and Means Committee in the House to argue and debate against our trade associations that were building the stability of our industry on protectionism, I would say that those tariffs ought to come down. We ought to be competing in the free market.

I did not feel comfortable selling so much in Hong Kong, where it is a free market, with the domestic industry hiding behind a wall of protectionism. And the industry survived as the tariffs came down and down and down. I do not know what they are now, 5 percent or something like that. And the Japanese photographic industry has become quite prominent.

But we were fair. And we gave them a chance, and we gave them access to our markets. So I can talk with a clear conscience when I say that I have been a freer trader all of my industrial life and all of my public life.

But I find myself changing inside. And I want my Japanese friends to know it. I think it would be a catastrophe for us to go protectionist. But I think it would be an even worse catastrophe for us to stand still and do nothing about the gross unfairness of what is being done to the American worker.

I just returned last night, having spent several days home in Illinois, where we have the second highest unemployment in the country. We had manufacturers from Illinois testifying this morning about the gross unfairness and the lack of access that they have for their products in Japan. We need jobs for Americans. We open our markets to create jobs for Japanese, yet their market is closed as far as some of our products are concerned.

If there is no other way to get the point across, if we cannot do it through persuasion and reason, then we will have to go the route that many of my colleauges are advocating and just put the lid down. We will have to shut the door. We take one-quarter of Japanese exports, as you have said. What would happen if Japanese firms had to start laying people off?

I know. I operated a factory and built one in Japan. It is pretty hard to lay people off over there. You do not lay them off, but you are going to have to do something with those goods, like we are doing something with our goods. We are "eating" them. If you cannot sell them, you have to do something or you just stop producing and lay people off.

The Japanese have less flexibility than we have. We may have to turn the tables. I hope, therefore, that the reasoning which you have described, which is a sound, rational argument that this administration is putting forward, will be listened to. I hope they recognize what is behind the alternative if those efforts are not successful.

I applaud what they have done to date. Japan has made progress, but not fast enough. Not fast enough at all. The momentum of resentment is building up across the board at the grass-roots level and at the very top echelons of corporate America today as well as in the leadership of the House and the Senate.

So I think what you have said is good, sound advice. They are words of wisdom, and I hope they will be listened to by our friends in Japan.

Ambassador MACDONALD. As you know, Mr. Chairman, that is the message that we have carried over on your behalf to officials of Japan in the past. It has been most effective.

The CHAIRMAN. I thank you very much. We want to work closely with them. We have been friends with the Japanese for decades. We have so many friends there. But I think it is because of friendship that we can talk frankly to them. They cannot underestimate the feelings as exemplified by the Los Angeles Times survey of the American attitude toward Japan's trade policy now.

Mr. Secretary, we warmly welcome you. You were lauded this morning by the President of the American Farm Bureau Association. So we are happy to have you here today.

STATEMENT OF HON. SEELEY G. LODWICK, UNDER SECRETARY, INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS, U.S. DEPARMENT OF AGRICULTURE

Mr. LODWICK. Thank you, Mr. Chairman. I appreciate very much the opportunity to discuss with you today U.S. agricultural trade relations.

The CHAIRMAN. Excuse me. I wonder if you would mind assuming the chair for just a second, Senator Dodd? Secretary Shultz and I have been going back and forth, and we are finally together on the phone now. Thank you.

Senator DODD. Certainly, Mr. Chairman.

Please proceed, Mr. Secretary.

Mr. LODWICK. Thank you. Mr. Chairman, let me say it is a privilege to be here this afternoon with Ambassador Macdonald. We together have worked closely trying to work with these problems, and we see some daylight.

I would also commend you and your associates for the timing of this hearing, because it is the last of this month and the 20th and 22d of this next month that we will be visiting one-on-one across the table, if you will, with the Japanese, attempting to work out a solution to these problems.

If it would be satisfactory, we would certainly carry your message to them as to the feeling that you and the committee have on these matters.

My purpose today is briefly to review the status of our agricultural trade relations with Japan and to discuss the issues that confront us and what we hope to gain in the negotiations that are scheduled next month.

There is no question that agricultural trade between the United States and Japan is mutually beneficial. Japan has imported more U.S. agricultural products than any other country in the world every year since 1964. Last year we shipped a record of $6.7 billion worth of products to Japan. This was 15 percent of our total farm exports and represents the production for more than 14 million acres of cropland; incidentally, an area larger than the total cropland available in Japan itself.

Japan, in turn, relies on imports to meet an estimated 50 percent of its caloric needs. The United States has been its most dependable, largest supplier, providing more than 90 percent of its soybeans, 55 percent of its wheat, 65 percent of its feedgrain requirements in the past decade.

In all, Japan has looked to the United States for more than a third of its food and fiber requirements. So there are benefits for both countries in a stable and expanding trade.

Our principal trade concerns with Japan at this point is one of access for high-value U.S. products: beef, citrus, nuts, canned and frozen foods, and other processed and consumer-ready products.

The problem is rooted in Japan's domestic agricultural policy. Japan protects its agriculture because of its small size and inefficiency. The average farm size is only about 2½ acres. And while yields are quite high, agricultural labor productivity is among the lowest of the developed countries. Agricultural production is maintained and stimulated by high domestic support prices which are protected by erecting import barriers to insulate Japan's domestic agriculture from international competition.

Over the years, with abundant supplies of imported grains and soybeans and limited arable land, Japan has moved toward the production of high-value specialty crops such as livestock and fruits. Therefore, Japan applies its import protection selectively, with an eye to insuring foreign supplies of the commodities it needs to supplement its own agriculture, such as feed grains for its livestock industry, while restricting entry of competing products.

This is done in a variety of ways, including the use of import quotas, tariff quotas, high tariffs, state trading, administrative guidance, and restrictive product standards. As a result, about 85 percent of the value of U.S. agricultural exports to Japan consist of raw materials, such as feed grains, wheat, soybeans, cottons, hides. The rest is in high-value products, and they are far short of their market potential.

While we have been concerned with the trade restrictive effects of all of Japan's barriers, we are particularly interested in eliminating its import quotas, which we firmly believe are in violation of the General Agreement on Tariffs and Trade. There are now 22 such quotas affecting agricultural and marine products, some of which are of significant trade interest, most notably beef, oranges, citrus fruits. And despite some Japanese steps to reduce tariffs and expand quotas, we continue to face quantitative restrictions on the same 22 items that we did 10 years ago.

Well, as the chairman knows, we have for over the past year intensified our efforts to improve access to the Japanese market. But to date, the Japanese have announced only limited measures to reduce restrictions on agricultural imports.

The first of these positive, if limited, responses occurred last December, when Japan announced its intention to advance by 2 years tariff reductions negotiated in the Multilateral Trade Negotiations on 1,653 items, both agricultural and industrial. This was followed in January by disclosure of 67 actions Japan said it would take to facilitate trade by removing or reducing the effects of various nontariff trade barriers.

Now, some of these measures, such as the intention to improve grading practices for imported sake, to increase the number of inspectors for U.S. cherry and papaya shipments, and to revise plywood standards could favorably affect U.S. agricultural trade. However, no quota items were addressed in either package, and although the announcements represented a step in the right direction, they represented very small steps.

We continue to apply pressure at the March, United States-Japan Trade Subcommittee meetings in Tokyo. This was the third meeting of the subcommittee since September 1981. At this meeting the Japanese agreed to begin negotiations on beef and citrus quotas in October 1982, the earliest possible date under the MTN [Multilateral Trade Negotiations] agreement, and to discuss in April their GATT [General Agreement on Tariffs and Trade] justification for the 22 import quotas affecting agricultural and marine products.

At the April meeting, held here in Washington, the Japanese made what we thought was a weak defense of the import quota system. We indicated it might be necessary to exercise our rights under GATT in response to their continued reluctance to eliminate trade restrictive policies.

On May 28 Japan announced a "second" trade liberalization package in anticipation of the Versailles Economic Summit. Measures affecting agricultural products included expansion of import quotas on prepared and preserved pork, hi-test molasses, canned pineapple, tariff reductions on 15 agricultural items, amendment of tariff classifications to allow the importation of wild rice and improvement in certain import procedures.

Well, after seeking clarification on these measures, we found out that our gains again were minimal. Japan had chosen to act only on those quota items of least significance to us. Since May we have undertaken further steps towards the elimination of Japan's quotas and other trade barriers. In late July the administration decided to pursue an Article 23 GATT action against Japan's restrictive import practices on leather. We informed the Japanese of this decision in our bilateral talks of August 2–7, and are currently considering their response before seeking recourse under the GATT.

Well, in addition, we are setting up a tobacco study group to discuss reduction of high Japanese tariffs and other restrictive marketing policies on imported cigarettes, cigars, and pipe tobacco. We have also voiced our concern and are paying careful attention to discussions by Japan's lumber industry regarding the formation of an importer's cartel that could curtail imports of U.S. lumber.

At every other opportunity, including my recent visit to Japan last month, we have been emphatic that Japan must quit temporizing and move boldly toward liberalization in agricultural products.

One thing we try to make clear is that agricultural trade liberalization will not destroy Japan's agriculture. Instead, it will make it more efficient and viable in the long run. We believe to allay the fears in the Japanese agricultural community, we must as soon as possible increase the dialogue with them on possible adjustment alternatives in their foreign sector.

We are now developing our strategy for the beef and citrus talks next month. Without question, these will be the most important bilateral discussions of agriculture with the Japanese since the conclusion of the MTN in 1978. We are hopeful that the October meetings will lead to full liberalization by Japan of its beef, orange, and citrus juice markets by 1984. These markets are important to us. Since the partial liberalization achieved in the MTN, the value of exports of these three commodities together has increased by a factor of 3. U.S. beef exports, mostly high-quality beef, increased from 7,000 tons in 1977 to 26,000 tons last year. And there is the potential for further expansion.

The great discrepancy between the Japanese wholesale and import prices is indicative of that potential. Last year Japanese wholesale prices were more than four times the average price of imported beef. Under a liberalized situation, consumption and imports would increase, probably quite substantially. And U.S. high-quality beef would do very well. As internal prices fell, Japanese consumers would likely substitute higher quality cuts for those of lower quality.

In the case of fresh oranges, import prices in wholesale Japanese citrus prices are fairly close, indicating that the Japanese citrus industry is competitive and does not need the protective shield of high tariffs and import quotas.

Imports of processed food items like juices are often restricted because the raw materials with which they are made are protected.

If oranges were liberalized, then orange juice should also be liberalized. Grapefruit juice should have been liberalized long ago, when the fresh grapefruit imports were opened up in 1972.

We expect success in the beef and citrus negotiations, but the challenge is formidable, and there is strong opposition in Japan. Considering the size of Japan's beef and citrus industries in relation to the whole economy, the producers of these commodities would not seem likely to be a significant political force. Most beef producers have very small herds and derive much of their income from other farm or nonfarm activities. Beef is not a staple in the Japanese diet, and neither beef nor citrus can be linked to food security interests.

Nevertheless, beef producers, representing 460,000 households, and that is out of a total of about 4,700,000 households, and citrus growers, with 300,000 households, have substantial political clout. Furthermore, a powerful cooperative organization, Zennoh, has large sums invested in slaughter, packaging, storage, and marketing facilities that depend on local beef production. And the Government of Japan itself has invested much political capital in persuading farmers to shift resources out of rice and into other crops, including citrus.

Thus, although we are optimistic, we have no illusions about the difficulties we face in the negotiations next month. And we are prepared to meet them. We recognize that Japan is our largest agricultural customer. But at the same time, with a population of well over 100 million and per capita income approaching $10,000, the Japanese market offers significant export growth potential if the barriers to agricultural trade are removed. With the continued support of the Congress and the agricultural community, we are confident that they will be removed.

That concludes my statement, Mr. Chairman. I will be glad to answer questions. And again I thank you very much for this opportunity.

[Mr. Lodwick's prepared statement follows:]

PREPARED STATEMENT OF HON. SEELEY G. LODWICK

Mr. Chairman, members of the Committee, thank you for this opportunity to discuss with you U.S. agricultural trade relations with Japan.

We deeply appreciate your continuing support—as a Committee and as individuals—for our long and difficult effort to improve access to the Japanese market for U.S. agricultural products.

This is a particularly important time for us, because next month we will begin a series of meetings with the Japanese to discuss the liberalization of their markets for beef and citrus, which hold a potential for significant export gains for U.S. producers.

My purpose today is to briefly review the status of our agricultural trade relations with Japan, and to discuss the issues that confront us and what we hope to gain in the negotiations that are scheduled next month.

There is no question that agricultural trade between the United States and Japan is mutually beneficial. Japan has imported more U.S. agricultural products than any other country every year since 1964. and last year we shipped a record $6.7 billion worth of these products to Japan. This was 15 percent of our total farm exports and represents the production from more than 14 million acres of cropland—an area larger than the total cropland available in Japan itself.

Japan, in turn, relies on imports to meet an estimated 50 percent of its caloric needs, and the United States has been its most dependable supplier—providing more than 90 percent of its soybeans, about 55 percent of its wheat, and 65 percent of its feed grain requirements in the past decade.

In all, Japan has looked to the United States for more than a third of its food and fiber requirements, so there are benefits for both countries in a stable and expanding trade.

Our principal trade concern with Japan at this point is one of access for high-value U.S. products—beef, citrus, nuts, canned and frozen foods, and other processed and consumer-ready products.

The problem is rooted in Japan's domestic agricultural policy. Japan protects its agriculture because of its small scale and inefficiency. The average farm size is only 2½ acres, and while yields are quite high, agricultural labor productivity is among the lowest of the developed countries.

Agricultural production is maintained by high support prices, which are protected by erecting import barriers to insulate Japan's agriculture from international competition.

Over the years, with abundant supplies of imported grains and soybeans and limited arable land, Japan has moved toward the production of high-value specialty crops, such as livestock and fruits.

Therefore, Japan applies its import protection selectively, with an eye to ensuring foreign supplies of the commodities it needs to supplement its own agriculture, such as feed grains for its livestock industry, while restricting entry of competing products.

This is done in a variety of ways, including the use of import quotas, tariff quotas, high tariffs, state trading, administrative guidance, and restrictive product standards.

As a result, about 85 percent of the value of U.S. agricultural exports to Japan consists of raw materials, such as feed grains, wheat, soybeans, cotton and hides. The rest is in high-value products, and they are far short of their market potential.

While we have been concerned with the trade-restrictive effects of all of Japan's barriers, we are particularly interested in eliminating its import quotas, which we firmly believe are in violation of the General Agreement on Tariffs and Trade (GATT).

There are now 22 such quotas affecting agricultural and marine products, some of which are of significant trade interest, most notably beef, oranges and citrus juice. And despite some Japanese steps to reduce tariffs and expand quotas, we continue to face quantitative restrictions on the same 22 items that we did 10 years ago.

As the Chairman knows, we have over the past year intensified our efforts to improve access to the Japanese market, but to date the Japanese have announced only limited measures to reduce restrictions on agricultural imports.

The first of these positive—if limited—responses occurred last December when Japan announced its intention to advance by two years tariff reductions negotiated in the Multilateral Trade Negotiations (MTN) on 1,653 items, both agricultural and industrial. This was followed in January by disclosure of 67 actions Japan said it would take to facilitate trade by removing or reducing the effects of various non-tariff trade barriers.

Some of these measures such as the intention to improve grading practices for imported sake, to increase the number of inspectors for U.S. cherry and papaya shipments and to revise plywood standards could favorably affect U.S. agricultural trade.

However, no quota items were addressed in either package and, although the announcements represented a step in the right direction, they represented very small steps.

We continued to apply pressure at the March U.S.-Japan Trade Subcommittee meeting in Tokyo (the third meeting of the Subcommittee since September 1981). At this meeting, the Japanese agreed to begin negotiations on the beef and citrus quotas in October 1982, the earliest possible date under the MTN Agreement, and to discuss in April their GATT justification for the 22 import quotas affecting agricultural and marine products.

At the April meeting, held in Washington, the Japanese made what we thought was a weak defense of their import quota system. We indicated that it might be necessary to exercise our rights under GATT in response to their continued reluctance to eliminate trade restrictive policies.

On May 28, Japan announced a "second" trade-liberalization package in anticipation of the Versailles Economic Summit. Measures affecting agricultural products included expansion of import quotas on prepared and preserved pork, hi-test molasses, and canned pineapple; tariff reductions on 15 agricultural items: amendment of tariff classifications to allow the importation of wild rice, and improvement in import procedures.

After seeking clarification on these measures, we found that our gains again were minimal. Japan had chosen to act only on those quota items of least significance to us.

Since May, we have taken further steps toward the elimination of Japan's quotas and other trade barriers. In late July, the Administration decided to pursue an Article XXIII GATT action against Japan's restrictive import practices on leather. We informed the Japanese of this decision in our bilateral talks of August 2–7, and are currently considering their response before seeking recourse under the GATT.

In addition, we are setting up a tobacco study group to discuss reduction of high Japanese tariffs and restrictive marketing policies on imported cigarettes, cigars and pipe tobacco.

We have also voiced our concern and are paying careful attention to discussions by Japan's lumber industry regarding the formation of an importer's cartel that could curtail imports of U.S. lumber.

At every other opportunity, including my recent visit to Japan last month, we have been emphatic that Japan must quit temporizing and more boldly toward liberalization in agricultural products.

One thing we try to make clear is that agricultural trade liberalization will not destroy Japan's agriculture; instead, it will make it more efficient and viable in the long run. We believe that to allay the fears in the Japanese agricultural community, we must, as soon as possible, increase the dialogue with them on possible adjustment alternatives in their farm sector.

We are now developing our strategy for the beef and citrus talks next month. Without question, these will be the most important bilateral discussions of agriculture with the Japanese since the conclusion of the MTN Agreement in 1978.

We are hopeful that the October meetings will lead to full liberalization by Japan of its beef, orange, and citrus juice markets by 1984. These markets are very important to us. Since the partial liberalization achieved in the MTN, the value of exports of these three commodities together has increased by a factor of three.

U.S. beef exports, mostly high quality beef, increased from 7,000 tons in 1977 to 26,000 tons last year and there is potential for further expansion.

The great discrepancy between Japanese wholesale and import prices is indicative of that potential. Last year, Japanese wholesale prices were more than four times the average price of imported beef. Under a liberalized situation, consumption and imports would increase, probably quite substantially, and U.S. high quality beef would do very well. As high internal prices fell, Japanese consumers would likely substitute higher quality cuts for those of lower quality.

In the case of fresh oranges, import prices and wholesale Japanese citrus prices are fairly close, indicating that the Japanese citrus industry is competitive and does not need the protective shield of high tariffs and import quotas.

Imports of processed food items like juices are often restricted because the raw materials with which they are made are protected. If oranges were liberalized then orange juice should also be liberalized. Grapefruit juice should have been liberalized long ago when fresh grapefruit imports were opened up in 1972.

We expect success in the beef and citrus negotiations, but the challenge is formidable. There is strong opposition in Japan.

Considering the size of Japan's beef and citrus industries in relation to the whole economy, the producers of these commodities would not seem likely to be a significant political force. Most beef producers have very small herds and derive much of their income from other farm or non-farm activities. Beef is not a staple in the Japanese diet and neither beef nor citrus can be linked to food security interests.

Nevertheless, beef producers, representing 460,000 households, and citrus growers, with 300,000, have substantial political clout. Furthermore, the powerful cooperative organization, Zennoh, has large sums invested in slaughter, packaging, storage, and marketing facilities that depend on local beef production. And the Government of Japan itself has invested much political capital in persuading farmers to shift resources out of rice and into other crops, including citrus.

Thus, although we are optimistic, we have no illusions about the difficulties we face in the negotiations next month, and we are prepared to meet them.

We recognize that Japan is our largest agricultural customer; but at the same time, with a population of well over a hundred million and per capita income approaching $10,000, the Japanese market offers significant export growth potential if the barriers to agricultural trade are removed.

With the continued support of the Congress and the agricultural community, we are confident that they will be removed.

That concludes my statement, Mr. Chairman. I will be glad to answer questions.

The CHAIRMAN [presiding]. Thank you very much.

Senator Dodd, if it is all right with you, I have to leave a few minutes before 3 o'clock. If you could chair the hearing until Senator Hayakawa comes in—I think he will join us very soon—I would appreciate it.

Senator DODD. I would be delighted to do that, Mr. Chairman. I have only a few questions. Perhaps someone would let Senator Hayakawa know. I will not take that long. As soon as you complete yours, I will go to my questions.

The CHAIRMAN. You can certainly follow me. I think Senator Hayakawa should be here by 3 o'clock.

Senator DODD. Fine.

The CHAIRMAN. This morning a question was raised on which I would like to follow up. The question was, what would the trade balance be if all barriers to U.S. exports to Japan were removed? We had a response from Mr. James Beré. He suggested that we might sell from $3 to $7 billion more to Japan each year. The president of the American Farm Bureau, Mr. Delano, estimated that we would increase farm sales by $1 billion from California alone, but he did not have any national figures.

Are there any estimates that the U.S. Government has made that could be provided to us as to what the potential might be, from either one of you?

Ambassador MACDONALD. We have no official estimates, and any estimates that we might have would necessarily be somewhat speculative. However, there are a number of products in which an opening of the Japanese market could realistically be expected to increase our exports in the billions of dollars range.

For example, in tobacco the Japanese wholesale market is, I believe, $5 billion. We have 1 percent of that market. Expert estimates vary, but indicate that we might be able to capture 25 to 50 percent if it were entirely open. That would mean a $2–2.5 billion increase in that product alone.

Similarly, our nuclear industry, just to take an example, is probably able in an open market to perhaps sell one-quarter of all of the equipment that goes into a nuclear plant. That would be as good an estimate as any. Japan is expecting to build a multitude of nuclear plants between now and the turn of the century. And they cost $1 billion and up apiece. Therefore, I think it could easily be seen where a real openness in that area might increase our exports substantially.

We made a number of individual rough estimates. We do not look at them as meaningful except as they tend to dictate where we put our own efforts.

The CHAIRMAN. Thank you. This morning Robert Galvin said that U.S. trade laws were in need of immediate attention. He said they placed tremendous hurdles in the way of businesses seeking to end foreign dumping in this country.

He also recommended that the U.S. Government self-initiate dumping cases as there are government-to-government investigations affecting international relations.

Would you give me a comment on these two suggestions? Are U.S. trade laws so unhelpful to U.S. business?

Ambassador MACDONALD. When I used to administer the antidumping laws, we had a record number of antidumping cases before the Treasury Department at that time, which we, I thought, dispatched without missing the required deadlines. And I did not hear too much complaint concerning the cost of filing them.

I think the procedure unquestionably has been complicated since then. There are preliminary probability-of-injury tests and a number of other things that necessarily add up to legal fees and certainly make it harder to process the dumping action.

Personally, we would have no policy objection to the Government self-initiating dumping cases in cases where the identity of the beneficiary company might result in some adverse action against it. But we, I do not think, Mr. Chairman, at this time—and I would really have to check with the Commerce Department—I do not think we feel that there are such cases pending now or possibly pending.

Mr. LODWICK. Mr. Chairman, on a little broader note, there are two pieces of legislative pending in Congress, both of which I understand have passed the Senate, that we understand and believe could be helpful to our export efforts. One is that pertaining to the export trading companies. The other pertains to the Foreign Corrupt Practices Act.

As far as additional legislation, it could be helpful to additional exports, agricultural. Anyway, we feel these two would be helpful.

Ambassador MACDONALD. Both of which have been passed by the Senate.

Mr. LODWICK. I would make one other comment, if you do not mind, and it is this. The potential that we have if the quotas were completely liberalized and if the nontariff barriers were removed and tariffs were reduced, we do not have any precise estimate but I think there is one indication that is fairly strong. And that is, when the Japanese find it comfortable and profitable to buy U.S. beef in small custom-wrapped packages in the O'Hare Airport and take it individually back to Japan, this represents to me a pent-up demand that can be satisfied if these quotas are liberalized. The Japanese per capita consumption of beef is very low.

The CHAIRMAN. Yes.

Mr. LODWICK. We think there is a pent-up demand. They have $10,000 per capita income, so there is the demand. We would like to be in a position to satisfy it. We hope the Japanese will work with us.

The CHAIRMAN. I hope, by these hearings, the word will also get back to the Japanese consumer. What a high price 90 percent of the population is paying for their protectionist system which benefits 10 percent. What inefficiency it introduces into the system. To think that agricultural productivity, as you have testified, is low, the lowest of developed nations, is testimony to the fact that a protectionist system subsidizes inefficiency. That is no way to build that sector of the economy, by penalizing the consumer at the other end.

Our business witnesses this morning discussed Japanese Public Law 84, which they say is a directive and blueprint for the Japanese subsidization and dominance of certain foreign markets. Would you care to comment on that, Ambassador Macdonald, as to how we look upon that law?

Ambassador **Macdonald**. We have been in consultation with the Japanese on those issues. They have recession cartels and other arrangements that are promoted by MITI for industries that somehow need either promotion or retrenchment.

The very fact that MITI announces that an industry needs promotion or retrenchment tends to make the rest of the Japan business economy say on one hand, if we want to promote it, we really do not want any competitive exports in the country; and, on the other hand, if we want to retrench the industry, it certainly cannot stand any imports while it is going through this phase.

It is very hard in many cases to see where the government leaves off and private industry begins. Many times, MITI appears to delegate some of its powers into the trade association, for example, that governs the industry. The net sum and substance of this complex interwoven relationship between government and business is that a telephone call or a form of guidance results, we believe, in a real restraint on foreign competition.

The **Chairman**. This morning Mr. Galvin also recommended that the GATT ministerial meeting include on its agenda an examination of existing GATT rules with an eye toward evaluating how these rules prevent distortion of trade in high-technology products. Will there be such an evaluation at that meeting? And are we pressing for such a review?

Ambassador **Macdonald**. We are pressing for just that issue. Another way of describing the high-technology issue for the GATT Ministerial, is to call it industrial policy. It is in the high-technology area that many countries, not just Japan, and including this country, have engaged in governmental efforts to promote their industries to the exclusion of their foreign competition. This is a serious problem that does require immediate attention. We have got to decide whether we are going to try to create rules for this or whether we are all going to go ahead and each one of us try to promote our own industry. That kind of decision has to be made.

The **Chairman**. As you probably know, Illinois is not only the largest exporter of agricultural products in the country, but also candymakers in Illinois produce about a third of the country's candy. And here is a very good example of unfairness—and I will be parochial enough to point it out because I can feel the effects at home on this. The Japanese Government maintains a very protective tariff on chocolate and confectioneries imported from abroad. The tariff is now about 31 percent. In contrast, our tariff on identical candy is about 7 percent.

I know you have held discussions with the Japanese Government on this. I have talked to them myself and asked for some action. Could you give us an update on this at this time or subsequently for the record? This product portrays the kind of dilemma we are in in trying to face up to our relationships here and the unfairness of what we are facing.

Ambassador **Macdonald**. Mr. Chairman, you and Congressman Rostenkowski are two of the leaders in this particular area. And, as a result of your efforts in trying to get the Japanese 30-percent tariff on chocolate confectionery down, the President has taken note of that particular tariff and efforts are indeed being made at high levels to reduce it.

The CHAIRMAN. Very good. Thank you. This morning Mr. Galvin of Motorola also stated that U.S. firms may have lost some $15 billion in semiconductor sales because of past Japanese protectionism. What, in your view, has been the impact of Japanese protectionism on U.S. sales in this area? Mr. Galvin estimated that losses to U.S. firms are continuing to accrue, amounting to roughly $3 billion in 1981 alone.

Ambassador MACDONALD. It is a situation that has to be corrected. While I am not sure of the figures, it is still a situation that has to be corrected.

The CHAIRMAN. Mr. Galvin has recommended that the U.S. Government define its policy on high technology, and he has suggested a policy statement. Are you familiar with that statement?

Ambassador MACDONALD. I have about an eight-point program that I discussed with Mr. Galvin and asked him for it. He supplied it to me. I am not sure that it is the same program reflected in his statement now.

The CHAIRMAN. Well, why do I not supply to you a copy of the policy statement and ask that the record be kept open in case it is different from the eight-point program so that you give us a reaction to it. How did you react to the eight-point program?

Ambassador MACDONALD. It was very good. It was one of the reasons that we pressed forward into this working group on high technology; and it was helped to direct our efforts in that area and to pinpoint problems for our discussions with the Japanese. And by the way, when we do sit down with the Japanese, we have high-technology private industry representatives right with us so that we are not missing any bets.

The CHAIRMAN. Would you also give us the status of the Houdaille petition mentioned in Mr. Galvin's testimony this morning. Are you familiar with that?

Ambassador MACDONALD. Which petition is that?

The CHAIRMAN. That of Houdaille Industries, H-o-u-d-a-i-l-l-e.

Ambassador MACDONALD. Oh, Houdaille Industries. Yes. That petition is—correct me if I am wrong—

[Pause.]

Ambassador MACDONALD. The comment period on that petition, which alleges a distortion of trade as a result of anticompetitive acts by the Japanese in the numerically controlled machine tool industry, closed at the end of July. There were 800 comments made on the petition. And, at the present time, we are digesting those through an interagency process. We have them delegated out for comment; and we are getting together to consider the comments in order to press forward.

The CHAIRMAN. Mr. Galvin also suggested that the U.S. should initiate a GATT procedure against Japan in the high-technology area. Do you have any observation on the usefulness of that suggestion?

Ambassador MACDONALD. I would like to think about that. At the present time, we feel committed to a procedure that we are following with the Japanese. I have not seen a 301 petition, so I am not sure I know how to comment on it.

The CHAIRMAN. Fine. I will just ask you one more question. Then I would ask that the rest of my questions be inserted into the record, and we will keep the record open for answers.

Mr. Secretary, in your testimony you stated that Japan is now dependent on exports to meet 50 percent of its caloric needs. Does Japan have concerns for national security reasons about becoming more dependent than that on foreign sources of food?

Also, is there any problem because of the 1973 embargo about our credibility as a reliable supplier? What needs to be done by the President, what more has been done by the President and the Congress to assure Japan that we will be and can be counted upon as an absolutely reliable, steady supplier?

Mr. LODWICK. Mr. Chairman, I think one of the hallmarks of agricultural trading took place on March 22 when the President addressed the newspaper farm editors and he addressed the topic of agricultural export policies. One of the three items that he mentioned was that there would be no embargo invoked because of high prices within the United States. This clearly for the first time sets forth what this administration's policy is and what we are going to carry out.

So I think as far as a repetition of that kind of embargo, which, frankly, Mr. Chairman, was a mistake, why, no, there will not be a repetition in this administration.

The CHAIRMAN. Thank you very much. I will submit the rest of my questions.

Senator Hayakawa, if you would be good enough to chair, Senator Dodd has some questions.

Senator DODD. Mr. Chairman, before you run off, first of all, I want to commend you for holding these hearings. I do not think there is any other issue that is more important or is drawing any more attention or where more concern has been expressed than the issue of trade relations with our ally and friend, Japan.

I would like, if I could, Mr. Chairman, to make a request to you. As I have sat here and listened today—and I apologize for not being here this morning but being here only this afternoon—the testimony we have had here on the content bill is obviously evoking a great deal of interest and concern, no less than the whole question of the dollar-yen relationship which is also a highly controversial one.

This request I am about to make, Mr. Chairman, would be supported by at least two members on this side, Senator Glenn and Senator Pell, and the request is to have another day of hearings so that we might bring in some people from the automobile industry, since that is such a volatile issue, as well as some others who are affected by trade policy, in order to expand a little bit some of the testimony we are getting.

It is such an important issue, and there really is no other relationship in trade that is as important as this one. I would make that request to you. I did not mean to do it in this context, but you are leaving the room.

The CHAIRMAN. We will certainly take that into account. We do have a terribly tight schedule right up until the October adjournment. But we will take it into account. I do put a very high priority on this issue, and I think the American people do.

Senator DODD. I would make that request to you, and I would be willing to do whatever work you need from those of us on the committee to help organize and put it together. I think it is so important for us to have an opportunity to explore all of these issues, because it is so crucial.

Senator Hayakawa, of course, has been a leader in these issues as well and, I know he has a very strong interest.

I thank you, Mr. Chairman, and commend you for holding these hearings.

Senator Hayakawa, I only have a few questions and will not take much time at all.

Senator HAYAKAWA [presiding]. Please proceed, Senator Dodd.

Senator DODD. Thank you.

Mr. Macdonald, first, of all, in your testimony you talked about the dollar-yen relationship, and you seem to indicate in your testimony that this is an artificially held level. What is it, about 240?

Ambassador MACDONALD. I have not looked at it recently. I am sorry, Senator. Staff tells me it is 260.

Senator DODD. In addition to the question of the value and availability of markets in Japan as a result of the relationship of the yen to the dollar, is it not true that it also impacts exports as well? What is it there? Roughly a 30-40 percent difference? Am I in the ballpark with that figure? Staff is nodding that it is correct.

Ambassador MACDONALD. That is the range in which it has floated.

Senator DODD. In addition to the legitimate arguments, about the quality of goods, which cannot be denied, there is also a problem in terms of consumer acceptance of American-produced goods and Japanese-produced goods. Are we not, in fact, as a result of that relationship providing the Japanese products, say, a Japanese-produced automobile, a roughly 30–40 percent discount in effect so that it also impacts significantly on this country in terms of the competitiveness of the American product versus the Japanese product, particularly in the area of automobiles where there has been so much stress?

Ambassador MACDONALD. I would like to make my testimony clear with respect to the yen-dollar situation. I think our position is that we cannot prove that the yen is artificially undervalued. However, as long as the Japanese capital market remains closed to foreign borrowers, Japan will always be subject to the criticism that its yen is indeed being manipulated by the Ministry of Finance, which vehemently denies that it is manipulating the yen.

Therefore, it behooves Japan to open up its capital market to foreign borrowers, and there may be many of those foreign borrowers who want to borrow yen at a prevailing rate of, say, from 6 to 8 percent rather than dollars at a prevailing rate of from maybe 13–16 percent. And they are willing to take the exchange rate risk. As long as the Japanese would subject themselves to that kind of access, then they would avoid some strong suspicions held by a number of people in and out of the government.

Your conclusion, unfortunately, to go to the Japanese to make the pure argument that the yen being undervalued is not a good starter because their response is that the dollar is overvalued. Maybe your interest rates are too high—that sort of thing. So you get into a kind of who-struck-John-first argument. Is ours too high or theirs too low?

Therefore, we instead have focused on the openness of the capital market. If we can get the capital market open, then we will know if the Japanese yen is undervalued or not.

To go into your second question, there is no doubt that you decrease the effective costs of a U.S. purchaser of Japanese car by 30 percent if the yen drops 30 percent in relationship to the dollar.

That is one of the major problems in the trading system today. Ever since we went off fixed exchange rates, the fluctuations of everyone's exchange rates have been so sharp and severe that relative costs are fluctuating all the time in a way that is highly unpredictable and, some would say, a disincentive to capital investment, especially here where we have very low tariffs.

Senator DODD. I do not have a copy of it with me, but there is a letter that either has been circulated or is being circulated in the Senate to be addressed to the Government of Japan, talking about the question of the relationship of the yen to the dollar, trying to impress upon our allies that this is one way of easing some of the pressure that has been created as a result of high unemployment in the auto industry particularly. And this would be one way at least of reducing some of the disparity that exists.

I understand your point about capital markets. I wish I had a copy of the draft letter that is kicking around. I do not know if you have seen it or are aware of it. But I would like to get a copy to you and have you take a look at it. Maybe we ought to add an addendum to that and talk about the capital market problem.

Without seeing it, it is very difficult to ask your opinion of it. But as a general political matter, do you think it is wise for a number of Senators to make that kind of a pitch?

Ambassador MACDONALD. To the extent that it indicates to the Japanese that there is a trade problem and that people are extraordinarily concerned about it in this country, it is wise. I think that is something that I have not conveyed to them. I have tried, but I am just not sure that I have gotten over to them how serious the problem is.

Senator DODD. I appreciate your response to that. And I will try to get you a copy of the draft so you can take a look at it.

The other questions I have referred to the automobile industry. Could you give us an update on what the status of discussions with the Japanese Government is with the third-year of the voluntary-restraint agreement in automobile exports?

Ambassador MACDONALD. Well, as you know, Senator, the second year of the voluntary Japanese restraint on autos of 1.68 million ends on March 31, 1983.

Senator DODD. Correct.

Ambassador MACDONALD. So we still have over 6 months to go on the second year. We have not discussed with the Japanese the third year. There is a third year, and there has always been a third year, as a part of the restraint program. But, there were no numbers inserted in the third year. The third year was looked at as sort of a wait-and-see year, depending upon market conditions during the first 2 years. Well, we have seen now—and I may be wrong on these figures—the American automobile sales, I think, were 6 million in the first year, estimated to be 5.8 to 6 million this year, down sharply from 1979–80. It looks right now as though the automobile recovery will start as a result of the recent reduction in interest rates. Therefore, Ambassador Brock expressed the opinion that he thought that a third-year restraint might well be necessary.

Senator DODD. Do you have any idea of the formula at all, any ballpark figures you are looking at?

Ambassador MACDONALD. We have no ballpark figures. The biggest weathervane, I guess, would be the first 2 years.

Senator **Dodd**. Yes. Let me ask you this. Are you talking about a 1-year, 2-year, or 3-year extension? Is there any thought to go beyond just the 1 year?

Ambassador **Macdonald**. I think 1 year at a time is probably plenty.

Senator **Dodd**. Could I ask you to keep me personally informed as to how those discussions are going and what sort of numbers we may be looking at? I would appreciate that.

Ambassador **Macdonald**. If and when we start them, we will certainly do that.

Senator **Dodd**. Thank you. Light-truck tariffs have been a hot issue as well. Have there been any discussions on lowering the tariffs in exchange for third-year restraints at all?

Ambassador **Macdonald**. None whatsoever. Nor would we enter into any such discussions without first disclosing that kind of discussion to Congress. We have been requested to consult by the Japanese in Geneva, who have alleged that the cab-chassis tariff—that is, that the light-truck tariff—may be violative of our obligations under the GATT. And we have consulted with the Japanese, defending ourselves as to the legality of that tariff. We believe it is legal. The Japanese seem to think that it may be illegal. The case has not gone to a panel, which would be the next step in a GATT dispute settlement proceeding. But that little rumbling is going on over in Geneva with respect to that issue.

Senator **Dodd**. Let me just ask a final question. What do you estimate, or do you have any figures, on what the trade deficit in automobiles will be with Japan this year? You talked about some figures earlier.

Ambassador **Macdonald**. I am not sure what the trade deficit in automobiles will be. They will certainly during the rest of this year have to live up to their restraint arrangement. But the overall bilateral trade deficit on an FAS basis for 1982 is estimated by Commerce to be $18–$20 billion.

Senator **Dodd**. That is what, $2–$4 billion above last year?

Ambassador **Macdonald**. Last year the deficit was $15.789 billion. So it is $2.5–$4.5 billion above.

Senator **Dodd**. What percentage of the $15.789 billion was auto?

Ambassador **Macdonald**. I am not sure.

[Pause.]

Ambassador **Macdonald**. I think it was about $10–$12 billion.

Senator **Dodd**. $10–$12 billion, automobiles?

Ambassador **Macdonald**. Yes. The great bulk of it is automobiles.

Senator **Dodd**. Do you have any idea that out of the $18–$20 billion deficit, how much will be in automobiles?

Ambassador **Macdonald**. Assuming that they sell the same makes of cars this year as they sold last, I would assume it would again be $10–$12 billion.

Senator **Dodd**. And it is at least that, if not more, because of the dropoff?

Ambassador **Macdonald**. Yes. I am looking at the bilateral trade balance. We have probably sold fewer cars to Japan in each succeeding year over the last few years than we have in the past.

Senator **Dodd**. Well, I appreciate your comments and your testimony.

And I appreciate your testimony as well, Mr. Secretary. I was focusing here particularly on automobiles, but obviously the agricultural issues are vitally important as well.

Senator Hayakawa, I do not know if you were here when I made my pitch to the chairman about getting another day of hearings on this subject. When we see such a significant portion of the trade deficit that is in automobiles and such a high percentage of our unemployment comes from the automobile industry and related industries, I think it would be worth our while to have another day of hearings.

Regarding the content bill, I am at a point where I may cosponsor it only to try to impress upon somebody that we have to get something going.

Let me quickly add, by the way, that as a Democrat, I think this administration has done a pretty darned good job on these issues. Mac Baldrige, I think, has been terrific. He has been tough. And it is not an easy issue to grapple with and deal with.

I am known as being a critic on a lot of things the administration has done. Well, I think this is one area where you have really done a lot more than your predecessors have in some of these areas. I think it would be helpful to keep this up, to have some expanded hearings and get some other people in.

I think we need to impress upon people how serious this issue is. We all know the arguments against something like the content bill, but I think others should recognize that when political frustrations reach a level in this country, or in any country for that matter, actions are taken which may not be in the long-term best interests of everyone involved. But when the political climate gets hot and people are laid off and the economy is suffering, then actions are taken which may be regrettable, but they are taken nonetheless.

And I think it is so important that those who may not understand the seriousness or the depth of feeling on these issues ought to be aware of it. That is why I think maybe another day or so might be worthwhile to make that point more sharply, not that these hearings have not been helpful in that regard.

I thank both of you and thank you, Mr. Chairman.

Senator **Hayakawa**. Thank you, Senator Dodd.

Mr. Ambassador, and Mr. Secretary, I am sorry not to have heard your testimony up to this point. The terrible thing about this job is that on a lucky day you only have to be in two places at once. When things are really tough, you have to be in three places at one time, and that is really difficult.

I do have some questions for you. Ever since I came here and was sworn in in January 1977, I have worried about the terrible trade deficit that we have vis-a-vis Japan. I think in that year or in the last reported year, as of January 1977, we had a $10-billion trade deficit with Japan. Is that correct?

Ambassador **Macdonald**. Yes.

Senator **Hayakawa**. That is the way I recall it. In our efforts to try to reverse that trend, we now have something approaching a $20-billion trade deficit. So I find this to be a terribly frustrating state of affairs.

As a member of the Agricultural Committee, I have done my best to increase the sale of agricultural products from California to Japan.

I have done all I could in many ways. For example, I have tried to push not only raw materials like fresh peaches, nectarines, and citrus fruits, but also value-added products like prunes or wine, and tried to get those into the market in Japan, with very modest success.

In fact, I have done better in increasing our exports of these things to Taiwan better than I have done with regard to Japan. So I am left with an awful lot of questions about what we can do to turn this around.

Senator Dodd mentioned one of the most important areas; namely, the automobile industry. I shall not try to discuss that at all, nor shall I try to ask questions about it.

But you did say something, Mr. Ambassador, that I have not thought about sufficiently. And that is, that Japanese regulations do not permit foreign companies to invest in Japanese stocks and bonds and so on. Is that correct?

Ambassador MACDONALD. Well, no. They do today in stocks and direct investment.

Senator HAYAKAWA. What was the inhibition you were talking about a little earlier?

Ambassador MACDONALD. The panoply of regulatory controls that would surround a direct investment. Let us say you wanted to make two-way radio equipment and wanted to get it approved by their radio regulatory board. It is not to say that it is not possible, but it is a very difficult job. It discourages a lot of people who should not be discouraged and who should go over and make the effort.

Senator HAYAKAWA. You are thinking then, let us say, of a joint venture between an American and Japanese company?

Ambassador MACDONALD. Joint ventures are the result of this difficulty in many cases. That is, the American firm just joins in with the Japanese firm.

Senator HAYAKAWA. Excuse me. The American firm does what?

Ambassador MACDONALD. Joins with the Japanese firm to make a product for which the American firm has the technology.

Senator HAYAKAWA. Instead of just going in?

Ambassador MACDONALD. Yes. Instead of just going in and forming its own company over there.

Senator HAYAKAWA. I see. The December trade sanctions imposed by the administration against the U.S.S.R. on account of the repression in Poland had an immediate impact on Japan; did they not? U.S. producers were precluded from selling exploration equipment to Japanese participants in a joint Japanese-Soviet oil and gas exploration project north of Japan near Sakhalin. I understand that the Japanese have about $200 million invested in this exploration project, and that failure to meet the exploration commitments of their contract would cause a total loss of this investment.

Would you give us an idea of where this project stands now and what is Japan's view of this situation? Are my facts correct here? Does Japan really stand to lose?

Ambassador MACDONALD. Japan has made that representation to us. And it has, more quietly than its European trade partners, expressed its opposition to the extraterritorial application of U.S. law.

I am not directly involved in that area. Therefore, most of what I know is really hearsay. Other witnesses might be more authoritative. I am not sure that I can answer your questions.

Senator **Hayakawa**. The question is—well, it is really two questions. Are the Japanese sore as hell about this? [General laughter.]

Are they suffering considerable losses as a result? Secretary Lodwick, do you have a response?

Mr. **Lodwick**. Mr. Senator, I do not have any knowledge on this matter, but we would certainly be very happy to respond to your question personally if we were permitted to have a few days to get the information.

Senator **Hayakawa**. I would be glad to hear from you on this subject.

Mr. **Lodwick**. Fine, sir.

Senator **Hayakawa**. Do you have anything to add at this moment?

Mr. **Lodwick**. No, I do not.

Ambassador **Macdonald**. No, I would rather supply it supplementally, too, to make sure that it is accurate.[1]

Senator **Hayakawa**. Fine.

I have long felt that one of Japan's vulnerabilities is its dependence upon Middle Eastern oil, and that it should seek alternative supplies nearer to home. I think that is one of the things we are trying to do in Sakhalin. I have tried to make my contribution to a solution of this problem.

One way we could improve our trade balance with Japan, as well as to decrease Japan's vulnerability, is to permit the export of Alaskan oil to Japan, and I have introduced a bill by means of which Alaskan oil can be introduced into Japan, not by means of direct sale necessarily, but by means of a three-way trade: Mexico can ship to us and Alaska can ship to Japan.

The bill is before the Senate at the present time. I have talked with the Japanese ambassador about it, and he is enthusiastic. Obviously, there is an enormous saving of transportation costs to the Japanese, but more importantly, the possibility of that oil being cut off somewhere from the Middle East along that line by hostile forces is very much reduced, with a shorter route between Sakhalin and Japan, as opposed to the Persian Gulf and Japan.

The Ambassador from Mexico, to whom I spoke last week, was very happy about the idea, too, because under present circumstances, anything that will increase their sales and therefore help their economic conditions seemed good to him.

How does this all sound to you, gentlemen?

Ambassador **Macdonald**. We have been approached by the Japanese on this issue, and I think not without reason. It is a reasonable proposition. As you know, this prohibition on export of crude petroleum was imposed at a time when we had a very severe oil shortage ourselves, and it became embedded in the law.

Senator **Hayakawa**. That is right.

Ambassador **Macdonald**. The administration has not yet seen fit to sponsor legislation that would repeal that. I think there is still a feeling that in an emergency that oil could be very valuable to us, but the subject certainly should not be closed from discussion.

Senator **Hayakawa**. Certainly, if this three-way transaction is completed, and becomes routine, then we are not losing any oil as a result.

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[1] See questions and answers on page 112.

Ambassador MACDONALD. No, and oil is fungible. There is no prohibition against selling refined oil from Alaska.

Senator HAYAKAWA. There is not?

Ambassador MACDONALD. No, if the Japanese are willing to purchase refined oil, we could certainly ship that and build a refinery in Alaska.

Senator HAYAKAWA. Another of the problems that we have in dealing with Japan and Mr. Galvin of Motorola mentioned it this morning in his testimony, is the Japanese business practices, including cartel-like pricing policies and the sharing of research. These are not only incompatible with American business practices, but render some American businesses unable to compete with Japanese firms. That is, American firms can do the same kind of thing only at the risk of antitrust action.

Now, it is my feeling that American businesses can learn much from Japanese businesses, but can they in any way adopt these practices without violating antitrust law, or any other laws that exist in this country that prevent, for example, what we call collusion and monopoly practices?

Ambassador MACDONALD. We have suggested it a couple of times, view by Congress, in the sense that the world has become smaller, and competitors are now competing much more on a global scale rather than a national scale. So, even though someone may have a high percentage of the U.S. market, they may really be subject to very severe competition from foreign competitors, and this effectively restricts their action.

I think this is true in the field in which Mr. Galvin's company operates. They have in some areas gone to the Antitrust Division and obtained favorable comment regarding certain limited research efforts in which they have engaged, I believe. It is a cumbersome kind of procedure which I think should be loosened in order to enable U.S. companies to compete worldwide.

Senator HAYAKAWA. You say that it is time we started to reexamine our antitrust laws. Is such a reexamination going on? Is someone taking this all seriously as a project?

Ambassador MACDONALD. We have suggested it a couple of times, but I am not sure that we have really gotten it off the ground.

Senator HAYAKAWA. You see, I hear this every now and then. For example, the Japanese trading company, C. H. Itoh, and outfits like that that represent a number of small manufacturers and sell abroad. Apparently the way they operate enables small manufacturers to be represented abroad, but apparently such arrangements are impossible under antitrust laws in this country. Is that correct?

Ambassador MACDONALD. They are dangerous. Let me put it that way. This is why the Export Trading Company Act, which Secretary Lodwick mentioned, is so important. It provides a limited exemption to the antitrust laws in the case of export trading companies who could then represent more than one company of an industry much the way the Japanese do.

Senator HAYAKAWA. Would you explain that more fully, Mr. Lodwick, about the export trading companies?

Mr. LODWICK. There are several provisions. One of the provisions, of course, is that which Ambassador Macdonald described. Another provision is participation of the banks in an equity position, as I understand it, in an export trading company. These two advantages would be substantial, and particularly the one that Mr. Macdonald mentioned, over what we have today.

Some of us feel that certainly some of the larger banks and manufacturers could profit from this hopefully and create jobs in the United States, but also there might be a place for the smaller banks and the smaller manufacturing companies, and I would say the smaller producers of value added products from the agricultural sector.

Senator **Hayakawa**. Yes.

Mr. **Lodwick**. It is possible that some of the smaller banks could help those kinds of clients out, and maybe the smaller banks in turn could be helped by the larger banks. But I think that it certainly behooves all of us, whether it is the administration, the public, or the Congress, to do everything we possibly can to encourage additional exports.

Senator, excuse me if I get a little enthusiastic about this.

Senator **Hayakawa**. Oh, go right ahead.

Mr. **Lodwick**. Well, we can see some tremendous gains, not only in terms of American agriculture, but also in terms of providing jobs for people in the United States. Today there are about 1.1 million people who are employed to some extent because of agricultural exports. Now, this number can be doubled if we just expand some of our horizons and think of the opportunities that are in front of us, and also, very frankly, Senator, to enact certain kinds of legislation, two of which we have mentioned here today.

Now, obviously, in order to do this, we are going to need cooperation. We are going to need cooperation from the legislative branch. We are going to need cooperation from the executive branch, and we are going to have to work very closely with good customers like Japan and also with very good customers like the European Community. The job is not impossible to do. We think there is a bright future in doing it, but it will take a lot of good, hard work, and also constructive action on all of our parts to do it.

Senator **Hayakawa**. That is very exciting. The export trading companies bill has passed the Senate, and it is in conference now.

Mr. **Lodwick**. Yes.

Senator **Hayakawa**. It is likely to become law.

Mr. **Lodwick**. Hopefully. The other piece of legislation, Senator, that we mentioned just in passing has to do with the Foreign Corrupt Practices Act. This is a piece of legislation that has passed the Senate and hopefully will be seriously considered by the House.

Senator **Hayakawa**. Well, Mr. Lodwick, Mr. Delano said this morning that he believes if trade barriers were lifted on agricultural products, California alone would export an additional $1 billion worth of products a year. Is that a good estimate?

Mr. **Lodwick**. Senator, I would have no reason to discredit the estimate at all. I do know that Mr. Delano is a person who uses numbers very carefully, so I presume that it would be certainly within the ball park.

Senator **Hayakawa**. Trading companies would certainly help to achieve this goal, would they not?

Mr. Lodwick. Yes, they would. Perhaps Mr. Delano's comments were relative to what would happen if the quotas were removed, and we would have greater access to the Japanese markets.

Senator Hayakawa. We have heard considerable discussion, Mr. Lodwick, about the need for Japan to loosen its restrictions on the importation of beef and citrus. What can you tell us about your efforts to increase Japanese imports of fresh food products? You have been involved in those efforts, have you not?

Mr. Lodwick. Yes, we have, along with Mr. Macdonald and the U.S. Trade Representative. We are looking forward particularly to the 20th and 22d of October, at which time we will be talking with the Japanese under Mr. Macdonald's or Mr. Brock's leadership, about not only oranges, but also citrus juices as well as beef.

Senator Hayakawa. Is this the trade conference that is to be held in Honolulu? Is that what you are talking about?

Mr. Lodwick. Yes, it is.

Senator Hayakawa. That will be the 20th to the 22d?

Mr. Lodwick. Yes.

Senator Hayakawa. I see. Good. By whom on this side was it arranged?

Mr. Lodwick. The U.S. Trade Representative's office has the prime responsibility for making the final arrangements. It is our good fortune to work very closely with Mr. Macdonald and Secretary Block and with Ambassador Brock, so we look forward to these as constructive meetings.

Senator Hayakawa. On the matter of beef and citrus, Japan at the present time imports beef from Australia, does it not?

Mr. Lodwick. Yes, sir.

Senator Hayakawa. And New Zealand?

Mr. Lodwick. Yes.

Senator Hayakawa. Ho[illegible]uch from us? Or is it only that restaurant quality or hotel quality beef that we are talking about?

Mr. Lodwick. By far the vast majority of the beef that is imported by Japan from the United States is the so-called high quality beef, so-called restaurant beef. That amounts to about 26,000 tons this last year. That has been increasing some over the last 2 years.

Senator Hayakawa. Twenty-six thousand tons? That is not very much for such a huge population as Japan has, is it?

Mr. Lodwick. This is correct, Senator, particularly when we consider the average income of the Japanese, approaching $10,000, so the capacity to buy is there. The problem is that there is not the supply in Japan, but we would certainly be glad to make it available.

Senator Hayakawa. The retail price in Japan of that quality beef if what? Something like $20 or $25 a pound, I understand.

Mr. Lodwick. We understand it is considerably more than what it is in the United States. I have heard varying comments about what it is. I suppose an overall rule of thumb would be at least four times as expensive as it is in the United States, and quite possibly more than that.

Senator Hayakawa. You know, the Japanese are not a meat-eating people. Traditionally they have been fisheaters. One of the curious facts about compulsory military service and the draft is the following.

I think it was in the Sino-Japanese War in 1894, 1895, that they gave enlisted men meat and started to get them used to it, and they did the same in the Russo-Japanese War, I understand. It didn't change the culture overnight, but it got them started. But now they are going in the opposite direction by charging $20 or $25 a pound for the beef. But maybe MacDonald's is turning it around with Australian beef.

My own personal concern is, if we do not resolve some of the tensions surrounding our current trade relationship, Japan and the United States may find that the situation has begun to affect our overall relationship.

Ambassador MACDONALD. That is our concern, too.

Senator HAYAKAWA. I get the Japanese-American papers from Los Angeles, and of course like all ethnic newspapers, they are quick to find racism wherever they turn, but they mention a growing hostile attitude toward Japanese and Japanese-Americans more frequently now than I have ever seen them do in the past. I think they are crazy, but nevertheless the fact remains that this kind of story appears more frequently, and this is in response to such public events as if you remember, about 1 year ago, the United Auto Workers got together and smashed up a Toyota publicly to express their dissatisfaction with the importation of Japanese automobiles.

Our alliance and friendship with Japan has long been a fundamental underpinning of our foreign policy. Neither the United States nor Japan can afford to have this relationship deteriorate at a time when the conditions of the world dictate a close relationship based upon trust and common concern for each other's welfare.

Japan has long benefited from an open world economy. At the same time, it is not practicing the concept of an open economy. Now may be the time for Japan to begin to open its markets completely, demonstrating new strength and leadership in providing an example to the rest of the world.

All of this is very important, because in August 1981, I visited the ASEAN nations. I realized when I visited the ASEAN nations that they are all growing economically. They are developing nations. They are the Taiwans, South Koreas, and Japans of 50 years from now, maybe even 25 years from now. They are all in the course of industrialization, in the course of enriching themselves, in the course of lifting the general standard of living, and the expectations of the common man for everybody within those cultures.

They are going to be an important force in the world. One nation among them, let's say the most powerful among them right now, Japan, is practicing an economy that is the opposite of an open economy. This cannot only set a bad example, but could act as a kind of break on the development of the growth of all of these other nations in the ASEAN group.

Ambassador MACDONALD. You have hit the nail on the head. That is one of our principal problems. It is to convince less-developed countries, and particularly the ASEAN group, which is a very rapidly expanding group.

Senator HAYAKAWA. Yes, it is the most exciting part of the world.

Ambassador MACDONALD. It is to follow a freer trade mode other than Singapore and Hong Kong. The Japanese have left their imprimatur on the trade policies of the countries which are following behind them. But we can only stand so many countries of that sort in our view before the entire trading system begins to break down.

Senator HAYAKAWA. Ambassador Macdonald and Secretary Lodwick, I am very grateful to all of you for your testimony today. Do either of you have any final statements that you want to make? You made a nice final wrap-up statement just now. Would you like to make a final statement, Mr. Lodwick?

Mr. LODWICK. Except, Senator, to again express our thanks to you and your colleagues for this opportunity, and particularly for the timeliness of this, I really have nothing further to add. What with Mr. Macdonald and Ambassador Brock and ourselves meeting with the Japanese this next month, and also the 30th of this month at two different meetings, certainly the expressions from this group will be very helpful.

Senator HAYAKAWA. Gentlemen, thank you very much. This meeting is adjourned.

[Additional questions and answers follow:]

MR. GALVIN'S RESPONSES TO ADDITIONAL QUESTIONS SUBMITTED FOR THE RECORD

Question 1. You give as an example of unfair Japanese practices the experience Motorola has had in selling radio pagers in Japan and the Japanese sales here in the United States. You state that the Japanese company would sell here at prices which were only about one-third of the Japanese domestic price. Has Motorola instituted dumping procedures against Japan? Are dumping procedures inadequate to protect against unfair pricing?

Answer. Motorola has filed an antidumping complaint against Japan which is under review at the Commerce Department and U.S. International Trade Commission. We would expect, given the very dramatic nature of the situation in pagers that adequate relief will be forthcoming in this case although we will not be compensated for the damage already done.

However, as a general matter we feel that the laws do not deal adequately with unfair pricing.

We have a number of concerns. First, the threat of injury standard of the law is not defined in a manner that facilitates its use. Given short product life cycles, an action must be taken before damage is inflicted or a firm may be unable to stay in the running for the current or alter generations of products.

Second, the methods for calculation of production costs are not well suited to learning curve industries. They were designed for industries where prices are stable or rising. When costs drop rapidly, as they do for a typical advanced electronic product, the problem of calculating production costs becomes much more difficult.

Third, there is no penalty for damages done prior to a finding of dumping. Duties are assessed only on imports after the preliminary finding. Thus the importers bears none of the cost damages done up to that point—the domestic industry carries the full cost.

There are other problems with this law, which badly needs to be reviewed in light of competitive conditions in the high technology field.

Question 2. One major point you make in your testimony is that Japan is still benefiting from past protectionist policies even though those past policies may have been corrected and are no longer practiced today. You argue that we should seek compensation for damages already done. What form of compensation would be appropriate?

Answer. I believe compensation is a quite legitimate concept not only in domestic law but also under international agreement (e.g., GATT). The form of compensation should be tied to the magnitude of the damage. It could be assessed in a variety of ways—ranging from improved access to the other country's market to limiting access to the U.S. market and collecting damages from importers. It could conceivably be assessed in less direct ways. Such decisions should be made by those who are less responsible in the government based on the particular facts of a case.

Question 3. You state that U.S. Government research policies cannot now be employed selectively to deal with the particular problems. In the high technology area, what would you propose in terms of research policies?

Answer. My general point was that the U.S. Government has difficulty using domestic policy approaches to help industries adversely affected by foreign competition. When a foreign country like Japan gears up to help a domestic industry the United States should take appropriate steps to ensure that U.S. industry is not put at a competitive disadvantage as a result. In some cases that might involve government financial support for R&D or clear antitrust exemptions for cooperative research efforts. In addition to being able to better counter foreign actions, it would be desirable to establish better coordination of overall government R&D expenditures and to make international competitive threats a major criteria in setting priorities.

AMBASSADOR MACDONALD'S RESPONSES TO ADDITIONAL QUESTIONS SUBMITTED BY SENATOR HAYAKAWA

Question 1. The December trade sanctions imposed by the administration against the U.S.S.R. on account of the repression in Poland had an immediate impact on Japan; did they not?

Answer. The December 1981 sanctions prohibited the reexport of American oil and gas equipment. This, in turn, meant that a Japanese oil rig with American equipment could not be towed to Sakhalin Island for the summer 1982 drilling season.

Question 2. Would you give us an idea of where this project stands now and what is Japan's view of this situation?

Answer. In July the Sakhalin Oil Development Cooperation Company (SODECO) announced that a Soviet drilling rig would be employed for this season's drilling instead of the Japanese rig which would have used U.S. technology. Two test wells were drilled instead of the five which had been planned originally. The project is continuing although we understand at least one major Japanese gas company now believes that Soviet gas will be redundant. The Japanese have existing gas contracts with Indonesia and Australia.

Question 3. Are my facts correct here? Does Japan really stand to lose?

Answer. Prior to the summer 1982 drilling season, the Japanese expressed to us their concern that they might be forced to pay a large penalty under the terms of their contract with the Soviets. It appears, however, that in fact the Japanese did not have to pay any penalties.

Question 4. Are the Japanese angry about this?

Answer. The Japanese Government delivered an informal diplomatic note in July, the text of which is as follows:

1. The U.S. Export Administration Regulations, as amended on July 22, 1982 with a view to strengthening the sanctions against the Soviet Union, would adversely affect to a considerable degree Japan's trade with the Soviet Union, through extraterritorial extension of U.S. jurisdiction and restrictions on the existing contracts of Japanese firms.

With regard to the Sakhalin Project, in particular, the new regulations mentioned above, in addition to the suspension of export licenses for the equipment essential to the Project produced in the U.S., create further difficulties for the implementation of the Project.

2. In connection with the question of unilateral extraterritorial extension of a state's jurisdiction, the Government of Japan considers that the measures taken by the United States Government cannot be justified under the rules of international law.

We would characterize this reaction by the Government of Japan as an expression of serious concern. We do not believe that Japan is "sore as hell."

3. Further, we are worried that they may hamper the exchange of technology among the Western industrialized countries.

4. From these viewpoints, the Government of Japan considers it difficult to accept the U.S. decisions and wishes to call on the U.S. Government to reconsider them as well as to reexamine its decision concerning the export licenses for the U.S. equipment essential to the Sakhalin Project.

AMBASSADOR MACDONALD'S RESPONSES TO ADDITIONAL QUESTIONS SUBMITTED FOR THE RECORD

Question 1. For the last several years, U.S. cigarette manufacturers have been trying to make some headway in the Japanese domestic market. Japan is the fourth largest cigarette market in the world and the second largest of market economy countries. However, the market in Japan is closed by a government entity, the Japan Tobacco and Salt Corporation which is a government monopoly with total control over the Japanese domestic cigarette industry. The policies and practices of the Japanese tobacco monopoly have frustrated U.S. manufacturers of tobacco products, and have effectively closed the Japanese market in all but a minor way.

While there are severe problems with marketing and distribution on restrictions on U.S. tobacco products, tariff and tariff alone continues to prevail as the greatest obstacle to U.S. participation in the Japanese market. The Government of Japan applies a compound tariff formula that results in an effective tariff rate of 103 percent. The tariff is greater than the price of the cigarettes when they reach Japan. There is no justification for any tariff, let alone one in excess of 100 percent.

U.S. manufacturers have sought the assistance of the U.S. Government, particularly the Office of the U.S. Trade Representative, and report satisfaction with the support which they have received by the USTR. Nevertheless, they continue to express frustration over the inability to make any headway whatsoever on the tariff issue.

Could you comment upon the existing tariff situation, explain the efforts to date, and suggest steps that the Executive Branch, or the U.S. Congress might take to correct this discriminatory practice?

Answer. The Government of Japan (GOJ) currently assesses a tariff of 35 percent ad valorem on imported cigarettes. The combined effect of the tariff and the pricing formula used to establish retail prices for domestic and imported cigarettes is that imported cigarettes sell in Japan for 55 cents more than comparable Japanese brands, even though the pre-tariff price when entering Japan is roughly equivalent.

Under the terms of the November 1980 USG–GOJ Agreement on Tobacco, Japan agreed to reduce the tariff on imported cigarettes from 90 percent ad valorem to 35 percent ad valorem. In addition, the GOJ agreed to a commitment on the part of the Japan Tobacco and Salt Monopoly (JTS) to endeavor to maintain a price differential between comparable foreign and domestic brands of cigarettes of no greater than 100 yen.

Since that time, the USG, working closely with the U.S. domestic industry, has continued to press the Japanese to eliminate the remaining tariff as the first and most important step to greater market access for U.S. cigarette exports to Japan. The GOJ did not include a reduction in the cigarette tariff in its most recent package of trade initiatives, announced May 28. However, the GOP did agree to the establishment of a study group to assess the market situation for exports of manufactured tobacco products to Japan.

The Tobacco Study Group will meet in Tokyo the last week of October. One of the principal objectives the U.S. side will pursue in these discussions is a further reduction/elimination of the current tariff and a reduction in the price differential resulting from the pricing formula.

Question 2. The Japan Tobacco and Salt Public Corporation controls the distribution of imported cigarettes. Through a controlled licensing system it restricts the number of retailers permitted to sell those cigarettes. At present, only 20,000 retailers are licensed to carry imported brands, less than 1 out of 12 licensed retailers. Although the Government of Japan has recently agreed to increase the number of retailers by a graduated basis over the next 3–4 years, is there any reason why it should require several years for the Japanese monopoly to implement full and fair distribution of U.S. tobacco products?

Answer. In the package of trade initiatives announced on May 28, the Japanese Government committed itself to allow all tobacco retailers to handle imported products. The announcement stated that the measure will be implemented in stages until fiscal year 1985, and that in fiscal years 1982 and 1983, the number of retailers handling imported products will be increased from the present 20,000 to 70,000, and ultimately to all 248,000.

The transition period set by the GOJ during which the number of retail outlets handling imported cigarettes will be expanded reflects the monopolistic position of JTS. JTS, the largest tobacco company in the world, buys all domestically produced tobacco leaf in Japan, manufactures all of Japan's domestic tobacco products, and monopolizes their distribution and sale. In addition, it strictly controls sales of imported tobacco products, as a means of maintaining its monopolistic position in the Japanese market.

Question 3. Mr. Macdonald, you were quoted in the New York Times last January as saying that if American cigarette companies operated freely in Japan they would do about $2 billion in business each year. I realize that is just an estimate, but my rough calculations tell me we could reduce our balance of payments to Japan by 10 percent through cigarette sales alone. Why can't our companies operate freely there?

The Japanese Tobacco and Salt Public Corporation (JTS) is not the only state tobacco monopoly in the world. France, Spain, Italy and many other countries have similar monopolies. Are American companies able to sell cigarettes effectively through these other monopolies and, if so, why not in Japan? I understand, for example, that U.S. companies in Japan are not allowed to distribute their own cigarettes, but must contract with the JTS, their competitor, to handle their distribution.

Answer. The production, distribution, and sale of manufactured tobacco products (cigarettes, cigars, pipe tobacco) in Japan is controlled by a state monopoly, the Japan Tobacco and Salt Public Corporation (JTS). JTS buys all tobacco leaf produced in Japan, and is the sole importer of foreign produced tobacco leaf. It manufactures all of Japan's domestic tobacco products, and monopolizes their distribution and sale. As the sole distributor of tobacco products in Japan, JTS strictly controls sales of imported cigarettes, cigars, and pipe tobacco. This sharply limits the ability of U.S. tobacco manufacturers to market, advertise, and distribute their products in Japan.

Question 4. In May of this year the Government of Japan announced a second package of "trade concessions." How will that package affect U.S. cigarette companies there and are you satisfied that the measures announced will eliminate or significantly reduce existing trade barriers? The 35 percent tariff on foreign cigarettes imported into Japan does not appear inordinately high, yet U.S. companies say this is a major barrier to them in gaining access to the Japanese market. Why is this such a problem?

Answer. In the May 28 package, the Japanese Government committed itself to allow all tobacco retailers to handle imported products. The announcement stated this this measure will be implemented in stages until fiscal year 1985, and that in fiscal years 1982 and 1983, the number of retailers handling imported products will be increased from the present 20,000 to 70,000. These measures should facilitate to a certain extent increased U.S. exports of manufactured tobacco products to Japan. It also stipulated that limitations on advertising expenditures will be increased to meet market situations.

However, no reductions were made in the current tariff of 35 percent ad valorem assessed on imported cigarettes, which, when combined with the pricing formula used by JTS to set retail prices, results in imported cigarettes selling at a price 55 percent higher than comparable Japanese brands.

The U.S. industry asserts that the current tariff continues to be the most important barrier to increased U.S. exports of tobacco products to Japan. We intend to continue to pressure the Japanese for reduction/elimination of the tariff at the meeting of the U.S.-Japan Tobacco Study Group scheduled for late October in Tokyo.

Question 5. Why don't American cigarette companies manufacture their brands in Japan and thereby avoid the tariff? We have certainly seen many Japanese manufacturers do that here.

Answer. The Japan Tobacco and Salt Public Corporation has a monopoly on the production of manufactured tobacco products in Japan, thus precluding the possibility of American cigarette companies establishing production facilities in Japan.

Question 6. I noted that sales of U.S. cigarettes jumped more than 20 percent last year after the Japanese allowed only a few thousand more retailers to handle American brands. Is there high demand for American cigarettes among Japanese consumers and, generally speaking, are they readily accessible?

Answer. We believe that if the barriers to foreign manufactured tobacco products were removed, Japan would become an important market for U.S. tobacco products. Based on performance in comparable markets, the U.S. industry estimates that it has the opportunity to gain up to 40 percent of the Japanese market, which could mean at least another $1 to $2 billion in sales annually.

Question 7. The December trade sanctions imposed by the administration against the U.S.S.R. on account of the repression in Poland had an impact immediately on Japan. U.S. producers were precluded from selling exploration equipment to Japanese participants in a joint Japanese-Soviet oil and gas exploration project north of Japan near Sakhalin. I understand that the Japanese have about $200 million invested in this exploration project and that failure to meet the exploration commitments of their contract could cause a total loss of this investment. Could you give us an idea of where this project stands now and what is Japan's view of the United States as a reliable supplier as a result of the sanctions?

Answer. In July the Sakhalin Oil Development Cooperation Company (SODESCO) announced that a Soviet drilling rig would be employed for this season's drilling instead of the Japanese rig which would have used U.S. technology. Two test wells were drilled instead of the five which had been planned originally. The Japanese Government has indicated to us that it is concerned that the sanctions "may hamper the exchange of technology among the western industrialized countries."

Question 8. Is it your view that Japan should continue its energy dependence on Mideast oil or should seek alternative supplies nearer to home—as they are doing in Sakhalin? In other words, what is the administration's position on Japan's need to diversify its energy resources?

Answer. Japan is, in fact, actively seeking to diversify its energy resources, a program we support. For example, Japanese Prime Minister Suzuki has just announced a new agreement to promote development of oil fields in the territorial waters of the People's Republic of China. Japan has existing contracts with Indonesia and Australia. We have recently received information suggesting that one of the largest gas firms in Japan now feels Sakhalin gas will be redundant, due to reduced projections for domestic gas demand stemming from the recent stability in oil prices.

Question 9. On September 10, the Washington Post carried a report that Japan Steel Works may have violated the June sanctions by shipping pipeline valves to the U.S.S.R. in August. Is it your understanding that U.S.-licensed technology is involved? Will our Government now impose Dresser-France-type sanctions on yet another ally?

Answer. The Commerce Department is actively pursuing the facts in the Japan Steel Works case. I have no doubt that, should a violation of the sanctions be shown, the affected Japanese company or companies would be put on the denial list.

Question 10. The case of Japan Steel Works seems to me a real vignette of U.S.-Japan trade: a U.S. company strikes a deal with a Japanese company in 1970. A decade later, the Japanese company is selling the product—a better product—and the U.S. supplier is no longer needed. The September 10 Post article even quotes a Japanese businessman on this:

"In principle, though, our company now makes products that are higher in quality and cheaper and, recently, there has been no demand in Japan for Grove products." (Grove Valve and Regulator Co. is the U.S. company.)

This seems to happen frequently. Can you tell us why it is that Japanese companies time and again seem to get the best of American companies? Are there government subsidies that help a company like Japan Steel Works to leap over their competition and build a better, cheaper product? Are there lessons for American businesses seeking to do business in Japan?

Answer. Japan's emergence as the world's second largest industrial power is the product of a complex set of factors. In part, the credit must be given to the work ethic of an educated, highly motivated and disciplined work force, and to long range perspective of corporate managers. But a major share of Japan's success has been due to a sustained national policy of allocating scarce resources to strategically important industries and coordinating the implementation of that policy in concern with private industry. The effectiveness of these policies is in no small measure due to the ability of government, business, and labor to reach consensus on national goals as well as on policies to be implemented.

Question 11. This morning, one of our witnesses, Bob Galvin of Motorola, stated that U.S. firms may have lost $15 billion in semiconductor sales because of past Japanese protectionism. What in your view has been the impact of Japanese protectionism on U.S. sales in this area? Mr. Galvin estimates that losses to U.S. firms are continuing to accrue, amounting to roughly $3 billion in 1981 alone.

Answer. Various measures utilized by Japan to stimulate the growth of Japanese high technology industries have had a depressing effect on U.S. exports in this area, while allowing Japanese industries to become the principle competitors of U.S. firms in world markets.

Question 12. Mr. Galvin recommends that the U.S. Government define its policy on high technology and he provides a suggested policy statement. What is your reaction to the specific statement? What obstacles would prevent the Administration from making this kind of statement?

Answer. The statement set out in Mr. Galvin's testimony as a suggested policy of the U.S. Government on high technology closely resembles and contains many of the points developed by the Administration in fleshing out its objectives for U.S. participation in the ongoing United States-Japan Work Group on High Technology Industries.

Question 13. What would be the reaction to Mr. Galvin's other suggestions in his testimony?

Answer. The suggestions put forward by Mr. Galvin in his testimony deserve careful study and consideration. It would be inappropriate to comment on their desirability until they had been given such consideration.

Question 14. What is the status of the Houdaille petition mentioned in Mr. Galvin's statement?

Answer. The complaints contained in the Houdaille petition are currently under active investigation by an interagency task force.

Question 15. Mr. Galvin suggests that the United States should initiate a GATT procedure against Japan in the high technology area. Do you believe this would be useful?

Answer. No, I believe it would be premature at the present time. We are currently involved in a series of bilateral discussions with Japan on barriers and other trade-distorting measures currently affecting high technology trade. As part of these discussions we hope to reach agreement on a long-term work program in the high tech area. The major thrust of the work program will be to establish limits on government policies which have a restrictive impact on high technology trade flows. Initiation of a GATT complaint at this time could undermine any agreement reached between the United States and Japan on principles covering trade in this area.

Question 16. Mr. Beré listed a number of specific recommendations of the U.S. task force in the areas of equitable market access, structural aspects of Japan's economy and attitudinal impediments to balanced economic relations. Could you respond to the recommendations? Is the Trade Representative pursuing any of these recommendations with the Japanese Government?

Answer. Yes. With regard to explicit government impediments to equitable market access, I am happy to report that within the context of the intensive bilateral dialogue begun by the Administration over a year ago, we have been pursuing each of these objectives. Many of these issues were addressed in the package of trade initiatives announced by the Government of Japan on May 28. On some—most notably reductions of certain tariffs, reform of standards writing and administration procedures, and simplification of customs clearance procedures—we have made considerable progress. We have been less successful in persuading the Japanese to liberalize existing quotas and improve their administration, as well as provide full national treatment for foreign investors. As for expanded participation by U.S. firms in Japanese Government procurement, we are working with our Japanese partners to ensure that the full benefits of the Agreement on Government Procurement are enjoyed by both sides. We are working closely to ensure that the provisions of the May 28 package are implemented fully and that the Japanese Government is fully aware of the need to take further concrete steps to open the Japanese market.

In the area of structural aspects of Japan's economy which impede equitable market access, once again I am pleased to report that the Administration concurs with the recommendations of the Task Force and has attempted to make our concerns in these areas known. Japanese industry targetting is a particularly difficult problem, especially in high technology sectors. We have discussed this practice extensively in the U.S.-Japan Work Group on High Technology and are optimistic of reaching some understanding with the Japanese Government in this area. Similarly, we have discussed the potentially negative impact of depression cartels on U.S. exports to Japan.

With regard to the last area, we would welcome additional statements on the part of Japanese officials to the effect that Japan's interests would be best served by welcoming foreign goods and investment. We were particularly impressed with Prime Minister Suzuki's statement accompanying the May 28 package. However, the ultimate effect of the Prime Minister's statement depends upon the willingness of the Japanese people to accept that an open market is in Japan's interest. Additional remarks along the same lines from notable Japanese officials would be particularly helpful in ensuring that the Prime Minister's statement has its intended impact.

[Whereupon, at 4:45 p.m., the committee adjourned, subject to call of the Chair.]

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